FINANCIAL TIMES

Playing the blues
The stagnant global music industry
Page 15

Brent Spar
A platform for ideas
Page 14

Gasoline vapours
Collection complications
Technology, Page 11

East Africa
Integrating for business
Survey, Separate section

World Business Newspaper http://www.FT.com TUESDAY NOVEMBER 5 1996

Tutsi rebels call Zaire ceasefire to aid refugees

Tutsi-led rebels who have seized control of east Zaire from the chaotic national army declared a ceasefire to allow more than 1m Hutu refugees, trapped in the region by fighting, to return to Burundi and Rwanda. As international efforts to resolve the crisis intensified, Zaire's President Mobutu Sese Seko (left) flew from Geneva, where he has been treated for prostate cancer, to Nice, where he has a villa. He has made no comment since the situation began to deteriorate. Page 16

CGIP buys De Benedetti stake: French industrial holding company Compagnie Générale d'Industrie et de Participations is set to announce the purchase of Carlo De Benedetti's controlling stake in French automotive components group Valeo. Page 17

Milosevic heads for election victory: Serbian president Slobodan Milosevic's ruling socialists and their communist allies were heading for a comfortable victory in voting for Yugoslavia's federal assembly, but the opposition coalition was claiming huge gains in municipal elections. Page 2

Yeltsin's operation 'within days': The Kremlin said Russian president Boris Yeltsin's doctors had decided his heart bypass operation could take place within days. Page 2

Rifkind calls for Mideast forum: UK foreign secretary Malcolm Rifkind called for a forum of co-operation in the Middle East, to include the Arab countries and their neighbours. Page 7

Contacts with Sinn Féin renewed: Britain and the Irish Republic acknowledged that indirect contacts had been renewed with Sinn Féin in an effort to secure a new ceasefire by the Irish Republican Army. Page 8

China troops report upsets Hong Kong: China's announcement of plans to send troops to Hong Kong before July's transfer of sovereignty was described by the Hong Kong government as a breach of confidentiality. Page 6

Airbus wins Emirates order: Airbus Industrie won an order for up to 23 A330 aircraft from Emirates, the Middle Eastern carrier, putting the European manufacturing consortium on course to sell three times as many aircraft this year as in 1995. Page 16

Hanoi changes rules on offshore loans: Vietnam's central bank proposed a ban on the use of domestic collateral for offshore borrowing, provoking confusion among foreign banks. Page 6

Crédit Communal in $1bn offering: Crédit Communal de Belgique, the Belgian municipally-owned bank, launched one of the country's largest initial public offerings, expected to be worth almost $1bn, as part of its link-up with Crédit Local de France to create the Dexia group. Page 17

Sweden urged to stay out of Emu: Sweden should not join European monetary union at its planned start in 1999, an independent study commissioned by the government recommended. Page 3

German output falls: German industrial output fell unexpectedly in September, reflecting a sharp fall in production of durable goods and denting hopes of strong third-quarter growth. Page 2

Rhône-Poulenc rules out split: French group Rhône-Poulenc appears to have ruled out splitting its pharmaceuticals and chemicals activities, at least for the time being. Page 17; Lex, Page 16

ABF 15% ahead: Associated British Foods reported annual pre-tax profits 15 per cent ahead at £450m ($701m), helped by higher prices and lower costs. Page 24 and Lex

Vote today on Oxford business school: Oxford University teachers will vote today on controversial plans to build a £40m ($65m) business school in the English city. The scheme will be aided by a £20m donation from Syrian-born entrepreneur Wafic Said. Page 10

Ex-dictator Bokassa dies: Former dictator Jean-Bedel Bokassa, accused of slaughtering and eating opponents in his Central African Republic regime, died aged 75. Obituary, Page 7

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	6,040.83	(+19.00)
NASDAQ Composite	1,221.56	(-0.22)
Europe and Far East		
CAC40	2,142.15	(+1.64)
DAX	2,671.26	(-11.39)
FTSE 100	3,928.1	(-20.4)
Nikkei	closed	

■ US LUNCHTIME RATES

Federal Funds	5¼%	
3-mth Treas Bills: Yld	5.142%	
Long Bond	101⅛	
Yield	6.662%	

■ OTHER RATES

UK: 3-mo Interbank	6¼%	(6¾%)
UK: 10 yr Gilt	98¼	(98⅛)
France: 10 yr OAT	103.76	(103.69)
Germany: 10 yr Bund	101.54	(101.57)
Japan: 10 yr JGB	closed	(103.5434)

■ NORTH SEA OIL (Argus)

Brent Dated	$22.09	(22.225)

■ GOLD

New York Comex (Dec)	$379.6	(379.2)
London: close	$378.95	(377.95)

■ DOLLAR

New York: lunchtime		
£	1.644	
DM	1.5125	
FFr	5.1135	
SFr	1.27005	
Y	113.87	
London:		
£	1.6469	(1.6376)
DM	1.5132	(1.5165)
FFr	5.1184	(5.123)
SFr	1.2693	(1.2715)
Y	113.79	(113.58)
Tokyo close:	Y 114.1	

■ STERLING

DM	2.492	(2.4833)

Shares rise in potential telecoms takeover targets

BT merger with MCI fuels bids speculation

By Nicholas Denton in London

Takeover fever gripped the world telecommunications industry yesterday, in the wake of the announcement of the proposed merger of British Telecommunications and MCI Communications of the US.

Shares of potential takeover targets rose as leading international companies cast around for a response to the BT/MCI deal.

France Telecom is understood to have called a number of investment banks to explore an increase in the 20 per cent stake it and Deutsche Telekom of Germany together hold in Sprint. Like MCI, Sprint is a challenger to AT&T's hegemony in the US long-distance telecoms market.

It emerged yesterday that Cable and Wireless, which itself came close to merging with BT last spring, has been in discussions on an alliance in international telephone traffic with Nynex, the regional telecoms operator in the northeast of the US.

But C&W indicated it was unlikely at present to combine like BT with a US telecoms operator.

But the strongest pressure was on AT&T, the largest US telecoms group, to react to the merger of its main domestic and international rivals.

Investors expect it either to cement its existing Unisource alliance with some of the smaller European operators or seek another international strategic link-up.

The prospect of further transatlantic deals was heightened as investors welcomed the BT deal by lifting its shares 22½p to 375½p.

BT has agreed to buy the 80 per cent of MCI it does not own for more than $20bn in shares and cash to form Concert, which would be the world's fourth largest telecoms company by sales.

However, if either MCI or BT end their merger agreement in favour of another acquisition offer, the company cancelling the deal would have to pay the other $450 million, according to merger documents filed with the Securities and Exchange Commission. Meanwhile, shares in KPN, the Dutch national telecoms utility, rose 50 cents to Fl63 amid speculation that AT&T might seek a minority stake in its Unisource ally.

Shares in Vodafone, the UK cellular company which some analysts see as a potential partner for AT&T, were up 4p at 240½p.

Meanwhile, Sprint shares dipped in New York as market participants evaluated regulatory obstacles to a takeover by its two European partners.

Deutsche Telekom said acquisitions were a lower priority than the reduction of debt which it has promised investors in its forthcoming privatisation issue.

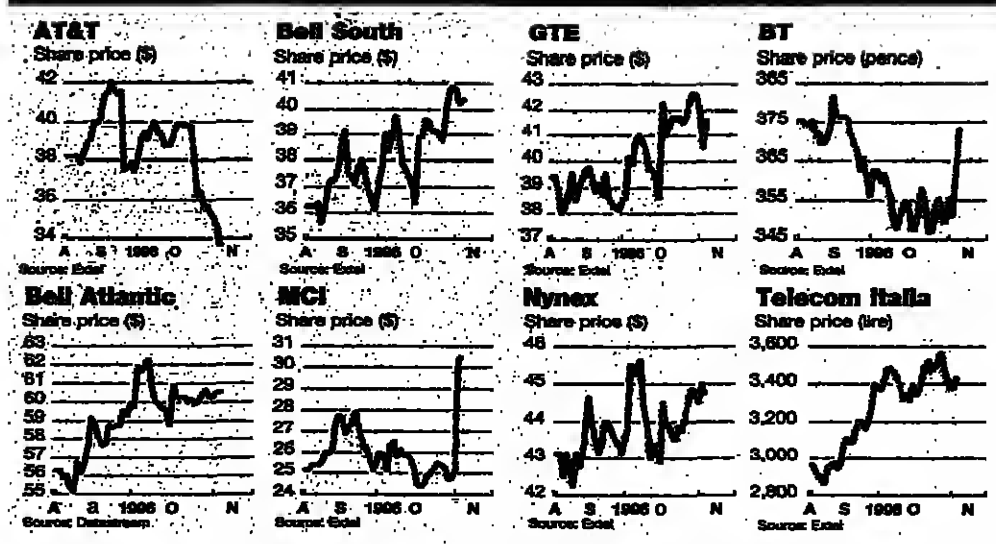
However, at midday Sprint shares still stood more than 5 per cent ahead of their closing price before rumours of the deal between BT and MCI leaked out on Friday.

Investment bankers said Sprint was likely to seek a deal to shore up its position in the increasingly competitive US long-distance market. It emerged yesterday that negotiations between BT and MCI broke down about two weeks ago. MCI executives then engaged in discussions with GTE, another US telecoms company.

Investment bankers said that the MCI move put pressure on BT to increase the price premium it was paying.

Observer, Page 15; Lex, Page 16; The BT-MCI deal, Page 22

BT/MCI merger plan rattles global telecom shares



Clinton makes final pitch

US president Bill Clinton greets supporters in Palm Beach, Florida, yesterday on the final day of campaigning before the presidential election. Report, Page 16 Reuters

Talks deadlocked over Emu budget discipline

By Lionel Barber in Brussels

Negotiations on a pact to enforce budgetary discipline among countries forming the planned single European currency are deadlocked, increasing the likelihood that a deal will not be struck until next year at the earliest.

The impasse is largely because of German insistence on firm rules on when members of the European monetary union would be allowed to run excessive budget deficits. A majority of states, led by the UK and Spain, want a less rigid approach.

A delay in agreement on a stability pact would not necessarily scupper the timetable for launching economic and monetary union on January 1 1999, but it could damage confidence in the financial markets which expected the nuts and bolts of Emu to be agreed by the end of this year.

As a result of the deadlock, Brussels officials are predicting European Union leaders will only be able to agree a broad political statement in favour of a stability pact at their summit in Dublin on December 13 and 14.

On several occasions, German officials have threatened to walk out of the negotiations on the budgetary pact, according to a senior EU diplomat. Germany would wait instead until the first wave of Emu members was chosen in early 1998 and seek a separate stability treaty among the chosen few, including France.

The European Commission as well as the UK, Spain and Italy have emphasised they would resist a German-led initiative to create an exclusive currency club operating outside EU rules. "If this happened, it would be the end of the EU," another senior EU diplomat said.

The threat of a German walkout is seen in Brussels as a negotiating tactic, but it has underlined the political pressures on Chancellor Helmut Kohl's coalition government in the run-up to the planned launch of the euro in 1999.

Mr Kohl wants to launch Emu on schedule, but he is committed to a strict interpretation of the Maastricht treaty targets on public deficits. Mr

Continued on Page 16
Sweden "should not join", Page 3; Observer, Page 15

Russians planning tax-free status for Chechnya

By Chrystia Freeland in Moscow

Mr Victor Chernomyrdin, Russian prime minister, yesterday gave public backing to a controversial proposal to establish a special economic regime in the breakaway Chechen republic.

According to an internal government document, the scheme would grant businesses registered in Chechnya exemptions from many federal taxes and import and export duties.

An off-shore zone already exists in Ingushetia, on Chechnya's western border, where the local economy has benefited from tax-free status. But the system has been censured by the International Monetary Fund which seeks to wean the government from granting ad hoc tax exemptions to a wide range of petitioners.

Mr Boris Berezovsky, the businessman whose appointment to the National Security Council provoked a public outcry last week, is a leading advocate of the Chechen plan.

If the proposal is approved, establishing the special regime for Chechnya would probably become one of Mr Berezovsky's briefs, and, according to reports in the Russian media at the weekend, one from which his businesses could profit.

Mr Chernomyrdin and other officials have presented the scheme as a way of giving Chechnya an economic incentive to remain in the Russian Federation at a time when the federal budget is too strained to provide direct subsidies.

The memorandum argues that it would give Moscow a means of legitimising a more pressing need: to create a barrier between Chechnya – where the federal government's power "is practically non-existent and a criminal economic zone has emerged in full force" – and the rest of the country.

One leading banker has

Continued on Page 16
Yeltsin's health check, Page 2

Holzmann to sell property in effort to reduce debts

By Frederick Stüdemann in Bonn

Philipp Holzmann, Germany's largest construction group, is to dispose of most of its property assets and launch a rigorous cost-cutting programme.

The move is part of a restructuring strategy aimed at reducing debts and returning the troubled company to profit by 1998.

Holzmann has accepted that bad management was as much a cause of its problems as overall market conditions.

The company – which made losses of DM443m ($293.30m) in 1995, with revenues falling 4.6 per cent to DM5.9m in the first half of 1996 – said a buyer had already been found for some 4,000 apartments, mostly in Berlin and Bonn.

With the sale of these, valued at DM500m, Holzmann will withdraw completely from its business as a landlord.

Further disposals over the coming year could raise DM2bn, the company said. "This represents around 60 per cent of our projects which have either been completed or are under construction," said a spokesman.

The company's prime goal was to reduce its burden of debt which at the end of last year totalled DM6bn. Receipts from the sales would also help offset the costs of restructuring.

Twenty-six loss-making subsidiaries have been singled out for radical restructuring. These include Holzmann's foreign subsidiaries Nord France, Philipp Holzmann Osterreich, and the group's Dutch venture Hillen & Roosen.

The group's road construction business, Deutsche Asphalt, and two of its subsidiaries in eastern Germany have also been identified as among the largest loss-makers.

The problems in the eastern German subsidiaries are evidence of the overall slowdown in the region's economy. Until recently the construction sector was the driving force behind recovery in eastern Germany.

Investment in the construction sector there is set to decline by between 1 and 2 per cent this year, the first setback since German unification in 1990. The building industry forecasts a further decline in investment of around 5 per cent next year.

Cuts in the company's operating costs are expected to generate savings of DM40-50bn. Staff at Holzmann's Frankfurt headquarters will be reduced from around 800 to 250.

Hochtief, a construction company and Holzmann's largest shareholder, is still trying to mount a hostile bid for the company despite opposition from the German cartel office.

CONTENTS

Albania	USK 275	Gibraltar	£0.75	Lithuania	Lits 18.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13		
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft270	Morocco	MDh15	Slovak Rp	Sk75		
Cyprus	C£1.20	Iceland	ISK260	Neth	Fl 4.75	S. Africa	R12.00		
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250		
Denmark	DKr20	Israel	Sh9.00	Norway	NKr22.00	Sweden	SKr20		
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70		
Estonia	EKr 28	Japan	Y500	Pakistan	Rs30	Syria	S£80.00		
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 8.00	Tunisia	Din2.00		
France	FFr12.00	Kuwait	Fils750	Portugal (mainland)	Esc350	Turkey	L120,000		
Germany	DM4.00	Lebanon	L3500			UAE	Dh13.00		

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Governing political parties suffer setbacks in eastern European voting

Up in arms: Romania's Emil Constantinescu (left) and Bulgaria's Petar Stoyanov display their elation over their successes in elections at the weekend Reuter, AP

Bulgarians choose reformer as president

By Theodor Troev in Sofia and Agencies

Mr Petar Stoyanov, a pro-reform lawyer, was yesterday confirmed as victor in Bulgaria's presidential election, sweeping aside his Socialist opponent, whose party forms the government.

With most votes counted, official preliminary results gave Mr Stoyanov, of the anti-Communist Union of Democratic Forces, 59.9 per cent of the vote to 40.1 per cent for Mr Ivan Marazov, the Socialist culture minister.

The president is largely a ceremonial figure with limited powers. But Mr Zhan Videnov, the Socialist prime minister, has promised to take note of the vote – a supreme council meeting of the governing Socialists will be called soon and Mr Videnov may call for a vote of confidence in his leadership.

Mr Stoyanov won overwhelming support in the cities, including more than 70 per cent of the vote in the capital Sofia. Final results are expected today.

In the first round of voting a week ago, Mr Stoyanov took 43.9 per cent against Mr Marazov's 27 per cent.

Mr George Ganchev, of the Bulgarian Business Bloc, which is emerging as a third force in politics, took 22 per cent, and refused to endorse either candidate in Sunday's run-off.

Sunday's turnout – 61 per cent, the lowest in any election in Bulgaria's seven years of democracy – ts regarded as a sign of increasing disillusion among voters over politicians' ability to solve the country's economic crisis.

An International Monetary Fund mission is visiting the country to dectde whether to grant Bulgaria $115m in fresh credit. If it refuses, the country could default on its $10bn foreign debt.

The Bulgarian lev fell to 246-247 to the dollar on the interbank market on Monday morning from 244-245 at Fridsy's close on rumours the funds might be denied.

Yugoslav opposition claims local poll gains

By Laura Silber in Belgrade

Serbian President Slobodan Milosevic's ruling Socialists and their Communist allies were yesterday coasting to a comfortable victory in voting for Yugoslavia's federal assembly. However, the opposition coalition was claiming huge gains in municipal elections, according to initial returns.

If this trend is reflected in the final results, the Socialists could even lose their grip on Serbian cities, among them the capital, Belgrade.

On Sunday night the Socialists were quick to claim "overwhelming victory" for their leftwing coalition in elections in Serbia and Montenegro – sole remaining partner in the Yugoslav federation – for the joint federal parliament, municipal councils, and Montenegro's republican legislature.

The Socialists, who merged with the Communist Yugoslav United Left (JUL) of Mrs Mira Markovic, Mr Milosevic's wife, had won two-thirds of the 108 seats allocated to Serbia in the federal assembly, according to a JUL spokesman.

The state electoral commission said that, with about half the vote counted, the leftwing coalition was leading with 48 per cent, the four-party opposition coalition, Zajedno (Together), had 23.9 per cent, and the ultra-nationalist Serbian Radicals were third with 18.8 per cent.

At the municipal level, however, opposition parties claimed to have enough votes to force run-offs with the left's candidates in several Serbian cities in a second round of polling set to take place in two weeks' time. In Belgrade, the opposition Democratic party said, there would be a run-off for 85 of the 110 seats on the council.

Opposition leaders expressed the fear that their chances in the run-off campaigns might be jeopardised by hostile coverage in the state-run media, which has virtually ignored their coalition so far except to attack them personally.

The Socialists have dismissed charges of ballot rigging and an unfair campaign. Only a handful of foreign observers oversaw the polling.

However, opposition objections were reinforced yesterday by a statement from the US embassy in Belgrade. This said that its observers had noted shortcomings in voter rolls, lax security, and restrictions on opposition party representatives and monitors in election commissions and polling stations.

Mr Milosevic was not a candidate in Sunday's contest, but he must retain a majority in the federal parliament to push through the constitutional changes he wants. He is likely to seek more power for the post of Yugoslavia's federal president, which is currently ceremonial, before taking the position himself.

His second term as Serbian president expires next year. Under the law he cannot seek a third term.

First round has Iliescu on ropes

By Virginia Marsh in Bucharest

Mr Ion Iliescu, the former senior Communist who has led Romania since 1989, was yesterday battling for his political life. Partial results gave him a slender lead in the first round of voting for the presidency and showed his party had been roundly defeated in parliamentary polls also held on Sunday.

With about half the votes counted, the opposition Democratic Convention, which favours faster economic reform, had won nearly 31 per cent of the vote, ahead of Mr Iliescu's Party of Social Democracy (PDSR) on about 23 per cent. The Convention said it would begin talks on forming a coalition with Mr Petre Romsn'e centrist Social Democratic Union (USD) as soon as final results were known, probably today.

The USD was in third position yesterday with 13 per cent, slightly below expectations. But Mr Romsn, Romanis's reformist first prime minister in the post-Communist era, won 21 per cent in the presidential race, behind the Convention's Mr Emil Constantinescu, an academic, on 28 per cent, and Mr Iliescu on 33 per cent. Mr Roman's endorsement will be critical to Mr Constantinescu's chances of beating Mr Iliescu in a two-way run-off on November 17.

It is expected that the party representing Romania's 1.7m-strong ethnic Hungarian minority, which was fourth with 6 per cent, will also support Mr Constantinescu and an opposition coalition. It would be the country's first centre-right government in half a century.

Although the presidency has limited constitutional powers, Mr Iliescu – a close aide of Nicolae Ceauşescu before breaking with the dictator in the 1970s – has brought considerable weight to the post. His removal would greatly consolidate the opposition's grip on power.

Analysts said the opposition had attracted young voters, urban dwellers and entrepreneurs and, critically, had increased its support from workers disillusioned with the governing party. Although nominally a left-of-centre party, the PDSR in government has fostered a corrupt business elite and failed to fulfil promises to improve welfare and low living standards.

However, the party, which favoured its more technocratic wing in selecting parliamentary candidates, is likely to be a formidable opponent for the relatively inexperienced opposition politicians.

Opposition parties should hold more than 55 per cent of parliament once the votes of groups not reaching the required 3 per cent threshold are redistributed. However, the PDSR will remain the largest single party in parliament. The Convention, which narrowly lost the 1992 general election to the PDSR, is a coalition of some 15 centre-right, liberal and Green groups.

Two of the small extreme neo-Communist or nationalist parties that supported the PDSR's minority government appeared unlikely to re-enter parliament. The governing party's former coalition partner, the anti-Hungarian Romanian National Unity party, saw its vote halved to less than 4 per cent. But the most extreme parliamentary party, the anti-Semitic Great Romania, increased its vote to about 4.5 per cent from 3 per cent in 1992.

Surprise fall in German production

By Peter Norman in Bonn

German industrial output fell unexpectedly in September, reflecting a sharp decline in production of durable goods, and denting hopes of strong third-quarter growth.

Although the economics ministry said it expected the figures to be revised upward later, the news coincided with a forecast from the Munich-based Ifo economic research institute of sharply lower profits for manufacturing industry this year, and a downward revision of industrial production in August.

The ministry reported that overall industrial output declined by a seasonally adjusted 1.8 per cent in September compared with August, confounding economists' expectations of a 0.5 per cent rise. At the same time, it revised August's production growth down from 1 per cent to zero.

As a result, output in August and September fell 0.5 per cent compared with June and July and was 0.8 per cent lower than in August and September last year.

The September output fall reflected a 10.5 per cent decline, seasonally adjusted, in western Germany's output of durable goods as well as significant falls in the production of investment goods and energy. The ministry offered no explanation for the slump in durables, but London analysts noted that it came after four months of strong growth in the sector and might have reflected strikes over limits on sick pay which affected the car industry at the end of the month.

Yesterday's news about industry was not all bad. Ifo reported a third quarter improvement in the average capacity utilisation of western German manufacturers – to 83 per cent in September from 82.2 per cent in June and 81.8 per cent in March.

However, capacity use was well below last year's levels. Orders in hand slipped to 2.6 months in September from 2.7 per cent at the end of each of the preceding two quarters. Moreover, Ifo said its recent surveys on western German industry indicated that the net earnings before tax of manufacturers employing more than 20 people would fall to an average 0.7 per cent of turnover this year from 1.6 per cent in 1995.

That would bring profits to their lowest level since the recession year of 1993 when Ifo estimated they averaged just 0.1 per cent of turnover.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY: Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE: Publishing Director: P. Maravigna, 42 Rue La Boetie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN: Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Georgian honey keeps bear sweet

Shevardnadze talks to **Bruce Clark** in Tbilisi about his relations with Russia

There can hardly be a more sophisticated observer of Russia than Georgia's President Eduard Shevardnadze who, as Soviet foreign minister, helped bring down the Berlin Wall and more recently has fought his own country's corner in its fluctuating relations with Moscow.

In recent weeks he has pleased Georgian nationalists by adopting a somewhat stiffer tone in his public comments about Russia. For example, he has threatened to end Russia's military presence in Georgia unless the status of the breakaway region of Ahkhazia, where Georgia lost control in a bloody war in 1993, is resolved.

Some Georgians have argued that the power struggle raging in Russia could present the country with an opportunity to assert its independence. But others point out that Georgia's bitter defeat by Ahkhazian separatists, backed by the Russian military, came st a time of internal power struggles in Russia.

In an interview, Mr Shevardnadze made clear that he continued to feel his country's relations with Russia needed handling very carefully. He intended to resist pressure from his compatriots to provoke Moscow gratuitously or take sdvantage of the uncertainty there.

"An unstable Russia is intolerable for Russia, eo much so thst Russia's stability is no less important to us than stability within our own country, " he said.

He used the mildest of language to present Georgia's recent call for the withdrawal of Russia's border troops from Poti. This Black Sea port could become vitally important for both oil and dry cargo as Europe's trade with central Asia gathers pace.

"There is no *legal basis* for those troops' presence because they are not covered by our agreement with Moscow on border security," he said. "I wouldn't say they pose any special problem to us, but we can guard our own border now."

He stressed that he wanted "objective discussions, without being too emotional" with Russia about the issue.

Mr Shevardnadze was equally lenient in his comments on General Igor Rodionov, Russia's defence minister, who in April 1989 oversaw the violent break up of a demonstration in Tbilisi.

"I view Rodionov as a military man, an honest professional, and I'm convinced it was not him who decided to use force, though he did receive an order and fulfilled it with very grave consequences," he said.

The Turkish government recently claimed Mr Shevardnadze as a strong ally of its proposal to build a giant oil pipeline, costing up to $3bn, to link the Caspian Sea with Ceyhan in southern Turkey. The US-backed idea is viewed with great suspicion by Russia.

Passage of arms: Georgia's President Eduard Shevardnadze pictured during a visit to the UK last year. Reuter

The Georgian leader measures his words: "There will be more than one route for the main Caspian oil flow. There will be a northern route [through Russia] and I think there will also be an alternative route to Ceyhan."

The same message – that Russia will in no circumstances be excluded – informs his comments on the emerging "Eurasian corridor" trade route linking central Asia, Trans Caucasia and points west which has won strong backing from the European Union.

"This corridor would not imply any changes to the trade routes which pass through Russia," he said, adding that Georgia was very keen to reactivate the trade on its northern border which had been reduced sharply by war and Russian customs duties.

"Some people say that because Georgia seeks integration with Europe, this will prevent Georgia's integration with Russia. But we favour integration with Russia, too," he said. "Russia's integration with Europe is more advanced than ours; we are just following suit."

Mr Shevardnadze is clearly holding out against the temptstion to taunt the Russian bear, and he urges the west to do likewise. For example, he said Nato should seek an understanding with Russia before enlarging eastwards.

He is equally cautious about the biggest challenge on his northern border: Chechnya, where he broadly backed Moscow's military effort – and has been left somewhat exposed by Moscow's peace deal with the separatist rebels.

"If Russia's decisions contribute to peace in one part of the Caucasus, that will be a good start," Mr Shevardnadze said. Whatever the clouds on the horizon, he still believed that "the sun of peace is rising over the Caucasus, albeit slowly".

The metaphor recalled one of the most extravagantly pro-Russian pronouncements Mr Shevardnadze made during the Soviet era when he was the republic's Communist boss: "In Georgia, the sun rises in the north."

Web-site monitors Yeltsin's health

By Chrystia Freeland in Moscow

An Internet web-site, a prayer from the Orthodox Patriarch, and the creation of a special hospital-based press centre were among the preparations yesterday which suggested that President Boris Yeltsin's heart bypass operation could be imminent.

His doctors, including Dr Michael DeBakey, the pioneering US heart surgeon, met yesterday. The Kremlin said they had decided the Russian leader was in "optimal" condition for surgery and the operation could take plsce in the next few days.

The presidential administration is setting up a press centre at the hospital, in a leafy western Moscow suburb, and has promised an announcement after the operation begins and perhaps in the middle of what is likely to be a long procedure.

Dr DeBakey, a globe-trotting octogenarian whose former patients have include Yugoslavia's Joseph Tito and the Duke of Windsor, has set up an Internet web-site – www.debakey.com – which Kremlin-watchers can visit for the latest Yeltsin health bulletin.

Even the relics of the Communist era appear to be pointing to an operation this week. Thursday and Friday will be national holidays in Russia as the country marks the 79th anniversary of the Bolshevik revolution.

Analysts think the long weekend could provide s convenient surgery date for the Kremlin because Russia's markets will be closed and its newspapers will not be published.

● An extreme nationalist and a Communist have defeated two pro-Yeltsin incumbents in elections to regional governorships. Mr Yevgeny Mikhailov, of Mr Vladimir Zhirinovsky's ultra-nationalist Liberal Democratic party, won in the northwestern Pskov region, which borders Estonia. Russian agencies said Mr Valentin Tsvetkov, candidate of a leftwing coalition of Communists and their allies, won in Magadan, a north-eastern province.

Italy's graft-fighter suffers smear campaign

By Robert Graham in Rome

Mr Antonio Di Pietro is under threat as public works minister in the centre-left government because of a smear campaign stemming from his former role as Italy's top anti-corruption magistrate.

In less than a week Mr Di Pietro has had to make three statements denying improper behaviour while investigating corruption during the early 1990s. He has also initiated court proceedings to discover the source of defamatory information being leaked to the press.

More seriously, he has openly attacked some in the Guardia di Finanza, the financial police, for waging a vendetta against him. This has led to the curious spectacle of Mr Vincenzo Vtsco, the finance mintster, defending the Guardia di Finanza, for whom he is responsible, from attacks of a ministerial colleague.

The institutional aspects of this crisis were underlined yesterday by Mr Francesco D'Onofrio, a senior opposition senator, who observed: "The government cannot go much longer pretending to run and trust the Guardia di Finanza and have a minister who manifestly does not trust them – at the least Di Pietro must say he does not trust individuals."

Mr Di Pietro is one of the most popular figures in Italy, having set in train the process which discredited a corrupt *politico-economic* system. He was brought into the centre-left government in May as an independent. Since he resigned as a magistrate in December 1994, he has hsd to contend with well-orchestrated smear campaigns, all of which he has shaken off. A Brescia court is currently trying Mr Cesare Previti, the defence minister in the 1994 government of Mr Silvio Berlusconi, for allegedly blackmailing Mr Di Pietro to resign as a magistrate.

Since September further corruption allegations have been investigated by magistrates in the port city of *La Spezia*, *reportedly* on evidence from the Gico, a special anti-Mafia unit of the Guardia di Finanza, based in Florence.

This investigation has led to the arrest of Mr Lorenzo Necci, the powerful head of the state railways, and Mr Pierfrancesco Pacini Battaglia, a shadowy financial intermediary already caught up in at least one corruption scandal investigsted by Mr Di Pietro in Milan.

In highly selective leaks of conversations, tapped by the Guardia di Finanza, Mr Pacini Battaglia is alleged to infer he concluded a deal with the *Milan* magistrates to let him off lightly.

Several commentators have suggested this anti-Di Pietro campaign has been orchestrated by members of the Guardia di Finanza who have been brought to justice by anti-corruption magistrates. Mr Di Pietro has hinted at this; the Guardia di Finanza has repeatedly issued denials.

NEWS: EUROPE

Sweden urged to stay out at start of Emu

By Hugh Carnegy in Stockholm

Sweden should not join European monetary union at its planned start in 1999, an independent study commissioned by the Social Democratic government recommended yesterday.

"Our overall judgment of the economic and political arguments is that the factors which argue against Swedish participation in tha first round in 1999 are stronger than those which argue for participation," the commission of prominent academics declared.

Tbe 450-page report etrengthened the judgment already widely made in the financial markets tbat Sweden will stay ont of economic and monetary union at least initially, mainly because of the strong weight of pnblic opinion against both the European Union and tbe single currency.

The Swedisb government itself has said that a postponement is possible when parliament takes a decision in a year's time.

Mr Eric Ashrink, the finance minister, welcomed the commission's "thorough analysis" and said it provided a good basis for a full public debate on the issue.

But in a sign that the government may now be concerned that the argument against early Swedisb participation has gone too far, he pointed out that the report's conclusions ware the personal opinions of the commission's eigbt members. "Clearly it is still a possible scenario that Sweden will join Emu from the planned start," he said.

All but one member of the commisaion, chairad by Professor Lars Calmfors, a leading economist, favoured Emu membership at a later – unspecified – date.

The panel said that the political advantages of membership argued for early entry – despite doubts about democratic controls over the projected European central hank – because Sweden risked losing influence in the European Union if it stayed on the sidelines.

But the commission was unitad in concluding that joining Emu in 1999 would be too risky for the Swedish economy, principally because of record unemployment and the continned weakness of the public finances.

Prof Calmfors said that with unemployment running at more than 12 per cent of the workforce, Swadan needed to retain the freedom to use an independent monetary and currency policy as "insurance" in case it was hit by another jump in joblessness. He said the country ought to halve unemploymant before joining Emu.

He said that if production fell and unemployment rose, it was politically implausible that Sweden could control the resulting crisis through wage flexibility or cuts in employer contribntions – which would be the key adjustmant mechanisms once monetary policy was fixed and strict Emu limits were imposed on the budget deficit.

With Sweden's public finances only now emerging from deep deficits, there was little room for increasing already bigh taxes or for furtber cuta in public spending beyond the tough measures taken in the past two years.

The commission said more time was needed for a debate in Sweden on the merits of joining Emu – and added that the costs of staying out would he reduced by the likelihood that several other EU members would also not join in 1999.

Lawyers' warning on euro

By Graham Bowley, Economics Staff

The introdnction of tbe singla European currency will bave far-reacbing implications for financial and foreign excbange markets and for regulators, Mr Colin Bamford, chief executive of Britain's Financial Law panel, said yesterday.

Speculation between national currencies taking part in European monetary union would be impossible if exchange rates were locked as scheduled in 1999 since national currencies would in effect disappear, he said.

The euro, the proposed European single currency, would in effect be the only currency in the Emn area. National notes and coins would continne to exist but only as denominations of the euro.

Everyday retail transactions would involve national notes and coins but wholesale financial markets would use the euro.

The FLP said this was an important topic, which had so far attracted little attention.

Fears grow of Emu-induced flight to Swiss franc

By William Hall in Zurich

Switzerland should be prepared to adjust monetary policy to stem any sudden inflows into the Swiss franc in the run-up to the planned start of the single European currency in 1999, according to a study commissioned by the Swiss economics ministry.

This could include softening its tough anti-inflationary monetary targets and adopting an informal exchange rate target.

Any sudden strengthening in the Swiss franc could be best bandlad by adjusting Swiss monetary policy rather than pegging the Swiss franc to the euro or the D-Mark, says the study, set up with the support of the Swiss National Bank.

It said the SNB should continua to balance its target of keeping money supply within a medium-term target range, with a more liberal monetary policy if monay started pouring into the Swiss franc.

The Swiss, whose economy has stagnated for the last five years, are increasingly concerned that uncertainties over the development of European monetary union could cause speculative inflows into hard currencies, such as the Swiss franc, further delaying the country'a long ovardue economic recovery.

Yesterday's announcement that Swiss retail salas dropped 7.8 per cent in September, and 3.4 per cent in tha third quarter, will increasa faars that the recent strength of the Swiss franc is pushing the economy deeper into recession.

Mr Jean-Pascal Delamuraz, Switzerland's president and economics minister, commissioned a panel of experts last February to look at bow Switzerland might be affacted by the move towards Emu.

The group concluded that tha biggest danger for Switzerland would arise from an extreme crisis of confidence which threatened the price stability of tha euro. Switzerland would not be able to isolate itself in these circumstances and would have to consider pegging the franc.

The report argues that "with the exception of this extreme development, which is considered a low probability, it is possible to dampen external influences with an autonomous monetary policy". Nevertheless, Professor Bernd Schips, who headed the study group, said yesterday the threat of further inflows into the Swiss franc was a "serious threat" to the Swiss economy. He did not expect tha economy to grow by more than 0.5 per cent in 1997 and 1998 and even this could be jeopardised if there was a further sharp appreciation of the Swiss franc.

The report goes further than recent Swiss National Bank statements in acknowledging that tbe recent appreciation of the Swiss franc has damaged the economy. It says there are limits to the ability of the economy to adjust to a further rise in the Swiss currency.

The Swiss National Bank has been allowing mooey supply to grow well above its medium-term target for soma time. Howpver, the report's emphasis that inflation is no longer a problem suggests that the bank's representative on the committee might have had to bow to the majority opinion.

Delamuraz: asked experts to study Emn's impact

EUROPEAN NEWS DIGEST

Kohl fails to halt tax row

A call from Chancellor Helmut Kohl for responsible behaviour from all three governing parties yesterday failed to stem the row about tax policy in Germany's coalition. The Free Democrats insisted that the solidarity surcharge, which is added to tax hills to finance eastern Germany, is cut by 2 percentage points to 5.5 per cent at the beginning of 1998. Leaders of Mr Kohl's Christian Democratic Union rejected the idea, arguing that the decision about cutting the surcharge should be taken only when the government had a clear idea of Germany's financial position. Mr Kohl called on the FDP to cease its "threatening behaviour" and work loyally in the coalition. He said the government would move swiftly to plug gaps in the 1997 draft budget which are in prospect because of sluggish tax income and high unemployment. Like the FDP, the chancellor insisted that the budget would be corrected by spending cuts and not by tax increases or higher borrowing. *Peter Norman, Bonn*

Armenian premier to quit

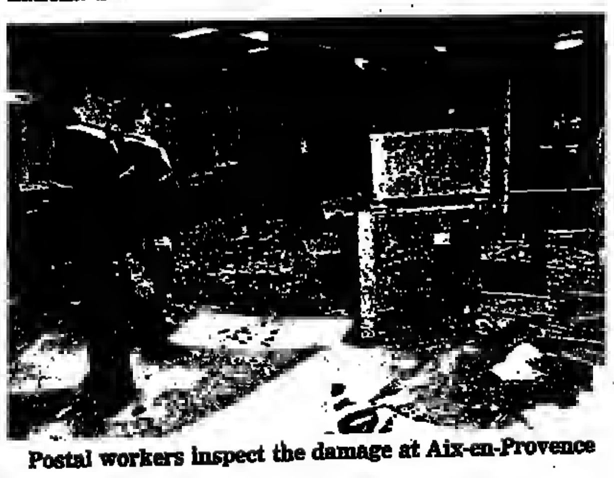
Armenia's prime minister yesterday announced his resignation following a protest vote against his tough reform programme. Mr Hrant Bagratian, in office since 1993, said he was resigning for personal reasons and wanted to write a book.

Mr Bagratian was popular among western investors and institutions for driving down inflation and reviving production. Armenia's GDP grew 6.9 per cent in 1995 and may grow by 5 per cent this year. But Mr Bagratian was unpopular at home for slashing social spending and cutting subsidies to loss-making industries, resulting in lower wages, high unemployment and impoverished health care and education.

An opposition candidate in September's presidential elections came close to unseating Mr Levon Ter-Petrosian by promising to raise social spending. Allegations of vote-rigging caused severe riots, followed by a military crackdown. Many analysts predicted that Mr Ter-Petrosian would sacrifice Mr Bagratian and raise spending to regain popularity. Mr Bagratian said in September that he would resign if the president backtracked on reforms. *Sander Thoenes, Almaty*

Chirac, Aznar offer Emu aid

The leaders of France and Spain opened their summit in Marseilles yesterday by giving moral support to each other's efforts to be in at tha planned start of European monetary union in 1999. President Jacques Chirac expressed his appreciation for Spain's determination to join the single currency, as reflected in the Madrid government'a draft budget for 1997. Mr Jose Aznar, Spain's prime minister, endorsed similar French efforts to reduce its public deficit sufficiently next year to qualify for monetary union. The annual summit took place under tight security after the main post office in Aix-en-Provence was bombed early yesterday by Corsican nationalists. *David Buchan, Paris*



Postal workers inspect the damage at Aix-en-Provence

Italian traders in tax protest

Italy's vociferous shopkeepers and traders yesterday staged countrywide protests against tax increases proposed in the 1997 budget and threatened a tax boycott. The protest, organised by Confcommercio, tha shopkeepers' confederation, underlined the fierce opposition to tax increases from a powerful anti-tax lobby. Mr Sergio Billè, head of Confcommercio, is staking out a political role as spokesman for the middle classes squeezed by higher taxes and fearful of a stagnant economy. The government, however, says small traders are among the worst tax evaders, often declaring lower earnings than their employees. *Robert Graham, Rome*

Nicholas Colchester

A memorial service for Nico Colchester, former FT foreign editor, will be held at Southwark Cathedral at 11:30 on Wednesday, November 13. It will be followed by a reception at the Financial Times.

US electorate looks to Clinton again, discounting sleaze and uncertain achievement

Cynical voters set to back Mr Average

US ELECTIONS November 5

The middle-aged real estate broker had a sobering message for the President: "Don't mess up. You only have my vote by default." He might have been speaking for millions of those who will today cast their vote in favour of Mr Bill Clinton. If the polls are accurate, those millions will give Mr Clinton a hefty victory: but what they cannot give him, however large their numbers, is a strong mandate for a second term. For while it is easy to find Clinton voters in America, it is tougher to find Clinton enthusiasts.

Frank, the real estate broker, had given up his supper one night last week to sit in a room at a Philadelphia conference centre – along with other members of the disaffected American electorate – to talk about today's election. They were taking part in two "focus groups", small discussion groups of target consumers, the essential tool of the modern marketeer.

It has become almost a truism to say that American politics is driven by such focus groups: that politicians never have a campaign thought – and certainly never utter one – without first testing it out before a jury of voters gathered together in a focus group.

Last week's focus group was paid for not by a politician, but by a philanthropist with a particular interest in campaign finance reform – the only hot topic of a tepid election campaign. Mr Jerome Kohlberg, first "K" of the leveraged buy-out specialist Kohlberg Kravis Roberts (KKR), was formerly a large contributor to Democratic candidates.


Bill Clinton: the kind of president Americans can tolerate, but not revere Associated Press

His aides say he now wants to spend "a few million figuring out how *not* to have political influence", by pushing for the reform of campaign finance laws which allow rich individuals and other "special interests" inordinate power over politicians.

So Mr Kohlberg paid Mr Peter Hart, a leading Democratic pollster, to probe voter views on money and politics, and to listen to the voices of America as the political cycle hit its four-year peak.

Mr Clinton would have found the session fascinating, though much of what was said would not have pleased him. Asked to grade his first term as president, almost all 22 voters in the two groups rated him "average". No one said "great".

Mr Clinton emerged as the kind of President whom Americans can tolerate, but not revere.

Mr Hart probed for the gut reactions which determine so many political choices, holding what he called a "lightning round" of snap responses.

The President attracted labels like "smart" and "sexy", almost all focused on image more than substance. Mr Hart tested the groups' reactions to other political leaders too: Mr Bob Dole was rated "dull" and "grumpy".

Mr Jack Kemp, his running mate, was largely unknown. The only figure who sparked any passion in the adjectives was Mrs Elizabeth Dole, the Republican candidate's wife.

Despite considerable mental effort, none of the participants seemed able to come up with anything Mr Clinton had actually achieved as President – though someone eventually made the dubious suggestion "peace in the Middle East".

Whether or not they planned to vote for him, no one would admit to having a high opinion of Mr Clinton's morals. "He would be sleazy, if he wasn't so polished," one man said. But most seemed to think character and morals irrelevant to voting behaviour.

"I don't think he has any real moral compass," said one group member, speaking for many. "And you're voting for him because...?" Mr Hart enquired. "Because I have no alternative."

As Mr Hart pointed out afterward, Clinton voters in the group were simply making a practical calculation. "They were saying, "we've invested four years in him. And we're prepared to roll the investment over." Many clearly cherished high hopes from a second term – but were unable to cite concrete grounds for optimism.

On the subject of campaign finance reform, Mr Clinton could have taken some comfort in the replies. He has been accused of gross abuses, including accepting contributions from foreigners in exchange for favours. But most of the focus group members had not registered these charges at all, and the rest did not care much. One could almost hear Mr Bob Dole, the Republican challenger, thundering from the sidelines: "Where's the outrage?"

Mr Hart showed the first group, of 12 women voters, a collage of front-page headlines screaming of campaign finance abuses. The ladies' faces looked blank. "Anyone really know what's going on?" Mr Hart asked? There was no reply.

"It went on 100 years ago and it's gonna go on 100 years from now, and if you don't believe that,

Image is vital. Clinton is rated smart and sexy, Dole, dull and grumpy

you're naive," one participant said, summing up the consensus.

They might have been sending a message: there is no mileage in Clinton campaign finance scandals. Outrage does not drive the largely cynical American electorate. A certain amount of scandal is already in the price.

Republican politicians may pursue Mr Clinton on a variety of ethical charges – from his involvement in the Whitewater financial scandal, to campaign finance transgressions, to abuse of confidential FBI files – if he wins a second term and they control Congress. But there is little sign that most voters feel so strongly. Americans set a low standard of ethics for their *politicians*. It takes a major abuse to breach the cynicism barrier.

Patti Waldmeir

Citizens push hot issues in front of voters

By Jurek Martin in Washington

If today's US elections hold true to form, California will be watched not for whether President Bill Clinton or Mr Bob Dole carry the White House but for the result of three ballot propositions with potentially broad legal and public policy implications.

Elsewhere this is proving a vintage year for citizen initiatives. Voters will confront no fewer than 90 statewide propositions, two-thirds of them in the West and 17 in Oregon alone.

They cover a full range of issues – from taxing churches (Colorado) and hunting wildlife (Colorado and Alaska) to the current hot topic, campaign finance reform (several states stretching from Maine on the Atlantic to Washington on the Pacific). Term limits for elected representatives are on 14 state ballots and legalised gambling on 10.

Of California's big three proposals, none has attracted more campaign finance on both sides than Proposition 211, designed to make it easier for shareholders to sue businesses for financial mismanagement. Company executives could be held personally liable in any judgment against them and punitive damages – not *permitted* in *securities* litigation in federal courts – would be subject to no ceilings.

Corporations ere estimated to have poured over $35m into the effort to defeat it, while its main sponsors, the trial lawyers, have also dng deep into their pockets. Recent polls find the alectorate evenly divided on the issue.

Outside the state, more attention, though less money, has been devoted to Proposition 209, which would bar the government of California from involvement in affirmative action programmes. Mr Dole favours it, Mr Clinton opposes it and a Mervyn Field poll published yesterday had it passing by 53 to 38 per cent.

Proposition 215 calls for the legalisation of marijuana for use to relieve pain and nausea in patients suffering from cancer and Aids. It has some support in the medical profession bnt conservative and religious lobbies are fighting against it.

A fair head of steam seems to be gathering behind campalgn finance reform initiatives, with Maine leading the way.

State voters will decide whether to provide additional pnblic finance for candidates who agree to abide by spending ceilings and refuse special interest contributions to level the financial playing field against those who do not.

Dole and deodorant on the campaign trail

Well-fed but sleepless, **Patti Waldmeir** describes the hunting of the hack pack on the Republican candidate's jet

Journalists are simple people: they need electric power, a functioning telephone line, constant feeding, occasional alcohol– and where possible, something to write about. Sleep is optional. US politicians understand all that. They give them what they need.

As Mr Bob Dole and President Bill Clinton jetted into their home towns ahead of today's election, they trailed with them a retinue of sleep-deprived, over-fed, cellularly-linked reporters. A couple of hundred of them.

Mr Dole's media entourage is the more ragged, after being deprived of sleep for 96 hours, a record for candidate-induced campaign torture.

When he began his non-stop campaign marathon he took away their luggage and issued them with chic blue Dole bags filled with toothbrushes and deodorants, to belp them combat campaign mouth and fight off home-stretch odour.

But at least he did not take away their power, their phone lines, or their food – although the normal high quality of Dole campaign meals deteriorated by the hour. For once, he provided a surfeit of what is known in the trade as "colour" – midnight gaming pit-stops in Las Vegas, and trucking jaunts through rural Michigan. Something to write about, at last.

But where there is such familiarity – the hard core of Mr Dole's press retinue has travelled with him almost constantly for six months – contempt cannot be far away. Most of the press started out liking and respecting the candidate; but relations frayed, as he began to bleme them for poor perceptions of his camp aign.

Many expressed fury at his ill-planned, 96-hour blitz. His daily outbursts, usually against the New York Times, won him no friends in the nether compartments of his aircraft, where the journalists were quartered.

In the last hours of his campaign Mr Dole took to visiting the back of the air*craft* to *prove* that he was still alive. But before then, he had seldom ventured from his luxury first-class cabin, complete with separate exit. Elite members of the press corps were trained to leave by the rear end of his aircraft.

Many journalists were on a separate aircraft altogether and did not see the candidate much, except at large public events. A small, rotating media "pool" was allowed to accompany Mr Dole the rest of the time; they then spent hours trying to decipher the half-sentences of a candidate whose voice was pitched perfectly to imitate aircraft noise. Monosyllabic utterances, half-heard above the dln, were then distrihuted as the daily "pool report".

One report conveyed the following intelligence from Mr Dole's press secretary, Mr Nelson Warfield: Mr Dole "has his laundry needs well under control"; campaign stops are not – repeat not – being planned by "using a map and a dart"; and "the financlal scandals of ths Clinton administration will have more sequels than the Exorcist".

A later report provided details of the candidate's craving for a milkshake, and his wife's consumption of a hot dog, at a fast food stop in Sioux Falls, North Dakota.

For the privilege of gleaning these insights, media organisations spend thousands of dollars for a place on one of the aircraft – cash used to subsidise the candidate's own travel costs.

Once on board, the seating was strictly hierarchical. The Washington Post, New York Times, Los Angeles Times and usually the wire services sat at head table, a space in the middle of the aircraft with its own electric outlet. The rest fanned out in waves from the power points, heck to the cameramen, stuck next to the toilets in the tail.

Most journalists – astute observers that they are – recognised immediately thet this was no ordinary aircraft. The air hostesses constantly ply passengers with food; the "fasten seat belt" signs come on normally at take-off, but no-one is ever asked to sit down; no disembodied voice warns sternly of the need to turn off cellphones, so phone conversations go on throughout the flight. It is one of the few places in America where smoking is not a federal offence.

The hostesses did their best to serve up passable fast food in the final hours of the campaign. But the one thing they could not deliver was sleep. And after the longest, dreariest campaign in modern memory, the journalists – simple people that they are - can think of nothing else.

Dole hopes pundits are wrong – as they were with Truman

Argentina's army chief visits Britain

By David Pilling in Buenos Aires

General Martin Balza, Argentina's army chief, yesterday began a three-day official visit to Britain, becoming the highest-level military official to he received in London since the 1982 Falklands war.

Gen Balza's arrivsl – which coincided with that of Mr Roque Fernández, economy minister – was considered "highly significant" by British military officials. They said such top-level contacts were an important part of normalising bilateral relations.

Full diplomatic links between the two countries were re-established in 1990, even though Buenos Aires maintains its sovereignty claim over the Fslkland islands.

Gen Balza, who was taken prisoner during the 1982 war, is expected to press for an end to a British arms embargo, particularly on spare parts for tha Argentine navy. Both governments deny recent press claims that the embargo has been secretly relaxed.

"We are very sorry that Britain has not tackled the problem and thst we still have an arms embargo on," said Mr Guido Di Tella, Argentina's foreign minister. Argentina had explicitly stated in its constitution that it would not press its claim to the Falklands by military means. "I don't think we pose any threat whatsoever," he said.

Mr Fernández, who arrived yesterday, took over the economy ministry in July from Mr Domingo Cavallo. Mr Fernández is heading a mission of more than 100 Argentine business leaders.

British investors will he keen to establish links with the new economy minister, whose last-minute cancellation of a trip to the UK and Europe last month drew criticism from some quarters.

Mr Fernández, whose trip to London is only his second international foray since taking office, arrived with a stamp of approval from the International Monetary Fund, which last week accepted new macro-economic targets set by his team.

Cavallo apologises to judge

Mr Domingo Csvallo, the former Argentine economy minister who is facing a series of facing court actions for his outspoken denunciations of official corruption, apologised to a Snpreme Conrt jndge yesterday for allegations agsinst the judge, Renter reports from Buenos Aires.

Mr Cavallo is abroad, hnt his lswyers filed a retraction, admitting he made the comments abont Jndge Augusto Belluscio "without personally checking the quality of the information I had and whether it was complete and accurate".

The case dates back to 1993, when Mr Cavallo called Mr Belluscio and Mr Enriqne Petracchi, a High Court colleague, "corrupt thieves" because of their ruling in a case against the central bank. Both sued, hnt Mr Petracchi accepted a retraction last month.

Mr Cavallo was sacked three montbs ago after doing a widely praised job as economy minister. He beat hyperinflation and fostered growth with his 1991 plan pegging the peso to the dollar.

He bas courted controversy since his sacking by continuing his personal crusade against official corruption.

Bringing Venezuela to book

Raymond Colitt reports on pressure for reform of a corrupt judicial system

Joaquin has been in La Planta jail, just outside Venezuela's capital Caracas, for nearly four years, accused of having stolen a piece of hread from his neighbourhood bakery. Although the real culprit has since admitted to the crime, Joaquin has been stuck behind bars. He has neither seen a judge nor a lawyer.

His is not an isolated case. According to the justice ministry, only 7,000 out of Venezuela's 25,000 prisoners have stood trial. And, as the long queues outside the country's trihunals indicate, justice is not easily accessible for Venezuelans outside prison either.

"I've been coming here for weeks," said one woman et a Caracas court, "and I know my case will be shelved to collect dust with others."

Even those with the money end clout to cut through the red tape and corruption and have their case heard find the country's judicial system a legal nightmare.

"You need to hire more lawyera in Venezuela than anywhere else," says Mr Stephen Goss, president of Venezuelan-British chamber of commerce, who himself has several court cases still unresolved after yaars of waiting. "It's e serious drawback to doing husinese here."

Public sensitivity to these issues have been heightened by events revealing the extent of extortion and inefficiency in the judiciary. A nationwide strike by court employees over delays in their pay and the massacre of 25 inmates in one of Venezuela's overcrowded prisons have added to concern.

"The judiciary has always been corrupt, clientilist and

A poll says 75 per cent of Venezuelans distrust their judicial system

politicised, but now the situation has become explosive," says Mr Alfredo Keller, pollster and political analyst. His latest opinion poll indicates that 75 per cent of tha Venezuelan public distrusts the judicial system.

Just how daunting a task it is to reform Venezuela's judiciary is illustrated hy tha fate of e $30m World Bank project designed to provide the judiciary with technical and administrative aid.

After sitting idle for years because of a lack of matching funds from the government, the project, signed in Decemher 1993, recently collapsed when the majority of the magistrates in the Council of the Judiciary, the principal agency charged with implementing the programme, abandoned it.

Mrs Gisela Parra, the council member who was implementing the project until she was dismissed last week, said reforms such as the random distrihution of cases to judges or the introduction of oral and public hearings, threatensd the interests of the magistrates who "currently do as they will".

"Those corrupt judges that publicly support reform in reality have boycotted the project because it is not in their interest. My colleagues simply have not understood tha importance of a project for the good of the country," she adds.

Mr Waleed Malik, the project's manager at the World Bank, admits that progress "could have been swifter", but disagrees that the project should not have been initiated until the country showed a more serious commitment to judicial reform. "The idea was to support the effort and help huild consensus," he says, adding that the World Bank does not become involved in certain areas of the judiciary, such as criminal law or the penitentiary system.

Since Venezuela's return to alected government 38 years ago, its judiciary has heen neglected and no reform effort will reverse thet ovarnight, says Mrs Cecilia Sosa, the head of the Supreme Court. "The project of the World Bank is no panacea but it is an opportunity to gather support and show

Government appears to have picked up the sense of urgency

that something is being done, that we are moving towards a minimum of legal security." President Rafael Caldera has pledged to revive the project.

Yet without tougher action and more political will, others say, such reform efforts are merely cosmetic. "What good is it if we have more computers and better buildings but leave the same rogues, tha same corrupt judges?" asks Mr Carlos Tablante, a former govarnor and head of En Cambio, an advocacy group for judicial reform.

En Cambio's proposal calls for all the country's 1,109 judges to be put on probation until spproved by an eminent jury in a public process. It would also speed up half a dozen judiciary reform bills, including an extensive constitutional reform, whicb are currently stalled in Congress.

Mr Tablante says this is the only way to break "the machinery of corruption that has formed around judges and includes lawyers, court employees and political parties".

The government, meanwhile, has picked up the battle cry and appears to have recognised the urgency for reform. "There is an emergency which is *endangering* the very valnes and principles underlying public order," says Mr Henrique Meier, the minister of justice.

Yet assessments differ as to whether President Caldera, who was yesterday due to meet World Bank officials to discuss the issue, will provide *the needed impetus for* reform. "Ha has his hands free to do so," says Mr Keller. "He has the ability but I'm not so sure if ha has the political energy to do so."

EU pressed on animal trap ban

By Nancy Dunne
In Washington

Animal welfare advocates will this week urge the European Commission to implement e long-delayed ban on fur imports from countries where leghold traps are used.

The European Union has said it will implement the ban at the end of this year unless the US, Russia and Canada reach a multilateral agreement on humane trapping standards. The unofficial deadline for the agreement is December 15 when EU environment ministers meet.

However, US officials said last week thet little progress had been mada on reaching a multilateral deal. If the EU pursues its ban the US is expected reluctantly to join Canada in a complaint to the World Trade Organisation.

The Clinton administration would like to avoid a controversial confrontation between environment and trade, but officials expect the US fur industry to fila a trade complaint. This would, they say, oblige them to pursue the case in Geneva.

The US and Canada have tried to get agreement on a 5-10 year phasing out of the leghold traps, during which time international standards could be agreed and various types of more humane traps tested. Brussels insists it must have some kind of pact in hand.

Implementation of the EU ban on fur imports has twice been postponed for a year. Under pressure from fur exporters and amid dissension in its own ranks, the Commission recommended that the han he deleyed again until the beginning of 1997.

Remote communities in northern Canada depend on trapping for as much as 60 per cent of their income. The trappers claim they perform a valuable information service for wildlife conservation officials.

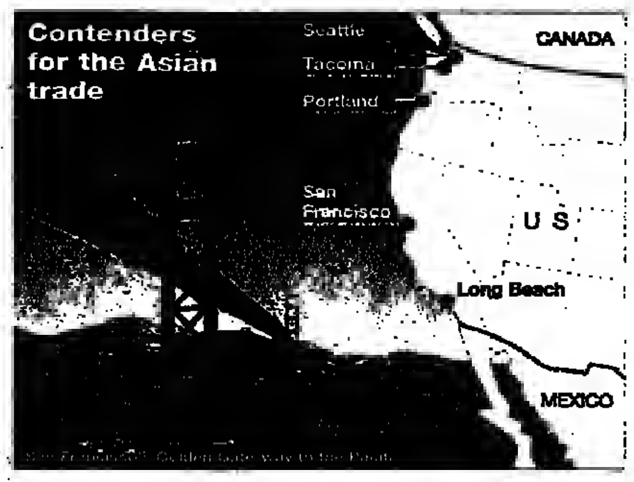
Last year, an aboriginal group represanting ahout 2,000 trappers asked senior Canadian trade officials to impose curbs on European luxury car imports in retaliation against the EU fur ban. Tha fur industry has also discussed hoycotts against other European products.

Animal rights activists maintain that the leghold trap is the most crual method of capture. They say leg snares, boxes and cage traps are more acceptable.

Mrs Christine Stephens, president of the Animal Welfare Institute in the US, said US officials had been "telling shocking untruths" in contending that leghold traps had not been usad for decades in the US. Mrs Stephens said only one-tenth of US fur exports – about $228m a year – involved the 13 species of animals whose pelts have been banned from the EU.

Neither mink nor fox is on the list.

West coast ports feel winds of change



The west coast ports of the US that have enjoyed prosperity as the country's trade gateways to Asia for more than 20 years have had to contend with some unfamiliar bad news lately.

Just as Los Angeles and San Francisco were sighing with relief at the passing of a threat of dock labour unrest, word was beginning to spread that west coast trade volume was falling. It has since been confirmed that container traffic through the region fell in the year to the end of June.

The fall was less than 1 per cent, but noteworthy because it was the first reversal in the 24 years in which records have heen kept. It was accompanied by continued shifts in shipping patterns which have rattled the most northerly port operators and given the southerners pause for thought.

Officials say the dip was probably the result of overstocked US shops following e relatively poor Christmas retailing season, compounded by a modest slowdown in world trade, and of currency swings. The more familiar 3 per cent annual growth trend should shortly reassert itself, they claim.

Long-term projections that US trade with the Pacific Rim will double in the next 25 years remain valid, they add.

If there is scope for optimism, there is also little room for complacency. The drift of Asian manufacturing capacity from Japan to more southerly regions is drawing volume away from north western ports such as Seattle and its neighbour Tacoma. Falling car imports from Japan – the result of the domestic industry's resurgence and increased manufacture of Japanese brands inside the US – are also taking their toll.

At the same time, shippers from southern Asia are being increasingly drawn through the Suez Canal to eastarn US ports which serve populous markets in the hinterlands of New York and Detroit, and whera cheaper dockside lahour adds to the attractions. According to officials in the Port of Portland, Oregon, 6 per cent of all Asian seaborne cargo for the US now passes through the canal *en route* to the east coast.

In the year to the end of June, Seattle saw its container traffic drop by almost 8 per cent, although the 3 per cent gain at Tacoma offered some compensation. Their joint share of west coast trade fell almost 1 per cent to 24 per cent in the sixth consecutive annual decline.

Next year they will face new challenges from Vancouver, just across tha border, where the opening of a terminal will double the port's capacity. The Canadian neighbour also has the advantage of having conquered its land-based transport problems.

Earlier this year Hanjin Shipping, which formerly eccounted for more than 10 per cent of all container traffic through Portland, shifted its north American landing point to Vancouver.

Seattle, which relies on members of the Asia Pacific Economic Co-operation forum (Apec) for 89 per cent of its business, and on Japan for more than a third of its total yearly trade of $74bn (£45bn) is now responding to its changed circumstances.

Despite the latest setback, local officials stand by projections of continued growth in container traffic which underpin a $500m expansion scheme under way. Aside from a 235-acre container terminal project, due for completion in 2000, the heart of this scheme is the disentanglement of the rail network serving the port.

Soon, the port will have two new docksida spur lines, and a loop track big enough to assemble a 9,000ft train of freight wagons.

The planned extra capacity is important, but speed is essential if it is to be best used. The north-west ports' former advantage over Los Angeles, for example, of a one-day shorter sailing time from Japan, is fading as Japanese manufacturing gives way to services.

A further disadvantage is the smallness of their local markets. Fast-growing southern California is home to 17m people – more than five times the population of Seattle's hinterland around the Puget Sound.

The effects of change are even apparent in San Francisco Bay, where the lively flow of electronic products and components between Asia and Silicon Valley has helped double the value of trade through the area since 1992.

Although San Francisco's exports to Japan soared 44 per cent in the first half of this year to $8bn, imports fell almost 9 per cent to $8.8bn – with shipments of Japanese-huilt cars dropping by 60 per cent to $483m, according to Tradewatch, a market research company.

Oakland, the main seaport in the San Francisco Bay customs area, has managed to buck the container traffic trend with a 1.5 per cent volume rise in the year to end-June. Even here the shift to bigger ships and the deeper-seated changes in trade patterns have obliged the port authorities to invest in a harbour-dredging project and draw up plans for a new waterside rail terminal.

But there is no project anywhere along the coast to rival the $600m expansion project under way at Los Angeles or the $1.8bn development of a road and rail route to link the port to inland road and rail marshalling yards. The port is soon to have two new piers, a 230-acre container terminal for American President Lines and a 111-acre coal facility to feed Asia's steel and power plants.

Los Angeles and Long Beach Harbor next door are the linchpins of west coast commerce. They account for a quarter of all US trade and more than half the containers coming in and out of the region.

The twin ports' share of west coast trade is now 58 per cent compared with 53 per cent five years ago. Seattle-Tacoma has slipped from 28 per cent to 24 per cent.

Christopher Parkes and Anne Counsell

WORLD TRADE NEWS DIGEST

UK 'near pact' with Vietnam

British officials say the UK and Vietnam may be close to signing an investment agreement which would protect British investors in Vietnam.

After 18 months of talks, however, the two sides still disagree over whether British investors should be accorded the same treatment as local investors over issues such as tax. "We have total agreement on all points but this one and we are holding out," said Mr Stephen Turner, deputy head of mission at the British embassy in Hanoi. No comment was available from Vietnamese officials.

London bolsters its argument by reference to its 83 investment protection agreements with other countries where British investors operate on a level playing field with locals.

However, Vietnam wants a deal that allows separate treatment, as enshrined in its foreign investment law. Hanoi has 23 pacts with countries – including some from the European Union – where a distinction is made between local and foreign investors.

Mr Turner said the UK hoped a compromise could be reached soon, based on a British proposal that UK investors already active in Vietnam would be treated the same as Vietnamese investors. However any future UK investors could be treated differently.

Britain ranks 13th among foreign investors in Vietnam, with $455m invested in 19 projects. *Jeremy Grant, Hanoi*

Saigon river study agreed

Maunsell, the UK-based engineering consultant, is to carry out a British aid-funded study for a new crossing of the Saigon river linking Ho Chi Minh City with the Thu Thiem peninsula, a wetland area to be developed.

Maunsell, which has worked in Vietnam for four years, is also part of a consortium preparing a transport master plan for Ho Chi Minh City. The plan and the feasibility study for the proposed Saigon crossing have both been funded by Britain's Overseas Development Agency. *Andrew Taylor, London*

Shell seeks Andes gas plan

Shell Prospecting and Development Peru has invited two international consortia to submit proposals for bringing natural gas across the Andes to Lima from the Camisea gas fields. The consortia – both from the US – are headed by Bechtel and Fluor Daniel together with local Peruvian construction companies. Odebrecht of Brazil is participating in the Bechtel consortium, and Techint of Argentina in Fluor Daniel's.

The Camisea project is Peru's largest, with development costs estimated at some $5bn. Much of this will go on construction of a 600km trans-Andean gas pipeline, associated plants and facilities. The Camisea deposits border the biologically rich Manu National Park where there are indigenous communities. Shell expects the design competition to last six months. *Sally Bowen, Lima*

■ Dominion Energy, a subsidiary of Dominion Resources of Richmond, a leading US independent power producer, has announced a $35m investment in the Bolivian department of Cochabamba. Three separate projects for channels and tunnels will approximately double electricity power generation in the Corani dam. Dominion is part of a consortium of the four US-dominated power generating companies in Bolivia which plan to export some 600MW of power annually to south-west Brazil. *Sally Bowen*

■ A US$83m construction management contract to build a new headquarters for the Kuwait Petroleum Corporation and Ministry of Oil has been awarded to a joint venture between Projacs, a Kuwaiti company, and Bovis, the construction subsidiary of the P&O group of the UK. The headquarters due to be completed in 1999 will accommodate more than 1,200 staff in twin high-rise, curved towers. *Andrew Taylor*

■ Adtranz, the joint venture of ABB and Daimler Benz, may sign a $200m deal with Polish State Railways (PKP) for the delivery of electrolocomotives this month, according to local reports. In September, the Polish privatisation ministry signed an initial agreement with Adtranz on selling 75 per cent of Pafawag, the rolling stock maker, on the condition that the Polish company and PKP agree on a locomotive delivery programme. *Reuter, Warsaw*

Hanoi may change rules on offshore loans

By Jeremy Grant in Hanoi

Vietnam's central bank has proposed a ban on the use of domestic collateral for offshore borrowing, provoking confusion among foreign bankers and casting doubt on the country's ability to formulate policy clearly. In a letter to the prime minister, the central bank recommends that the only form of security that should be allowed for foreign loans is a guarantee.

Pledging a joint venture's assets, which usually include buildings and machinery, fell "outside the governing scope of Vietnamese laws," the letter said.

Many foreign investors, including the World Bank private investment arm, the International Finance Corporation, have signed loan agreements based on the securitisation of domestic assets.

There are 10 loan agreements totalling $310m to companies in which foreign investors have a stake yet to be signed, in which the parties had agreed to the mortgaging of assets. But that formula would be unlawful under the bank proposal.

Central bank draft policy statements carry weight in Vietnam, which has no central law-making or law-drafting body. The result is a legislative free-for-all in which ministries and government compete to have their interests enshrined in law. "The whole problem," said one foreign lawyer, was that the central bank believed it was "the sole legislator as far as lending is concerned".

The proposal has caused confusion because, foreign lawyers say, it appears to contradict an earlier law, the Civil Code that came into effect in July, that allows buildings and machinery to be mortgaged under certain circumstances.

It has also disappointed bankers, who already face obstacles to lending in Vietnam. These include lack of clarity over land title and a competitive market where about 25 licensed foreign banks are chasing the few bankable projects that exist.

In addition, the spirit of the central bank letter runs counter to the country's frequently repeated desire to attract international project finance capital for infrastructure projects.

An ability to mortgage assets is usually crucial in such cases, given that projects generate a negative cash flow in their initial stages. "If we can't take collateral, what are we going to do?" asked one British banker.

Some see the bank letter as a statement of ideological principle, suggesting that no foreigner has right of ownership over assets in Vietnam. But it underscores Vietnam's continuing inability to produce clear legislation.

The country's recent law-making record is not encouraging. In June, the central bank slapped a 5 per cent tax on virtually all types of remittances coming into Vietnam. Despite complaints from foreign banks that the action resulted in a 50 per cent drop in the amount of foreign exchange coming into the banking system, the central bank did not withdraw the law.

The question of whether Vietnam can get its legislative house in order is being seen as a test of its credibility, not only in the eyes of foreign investors, but donors who will gather in Paris in early December.

Hanoi has yet to legislate effective measures that would, for example, liberalise the export sector by relaxing the state's monopoly on import and export licences at a time when export performance is showing signs of weakness.

HK upset by China's troop announcement

By John Ridding in Hong Kong

China's announcement of plans to send an advance guard of PLA troops to Hong Kong before next July's transfer of sovereignty was yesterday described as a breach of confidentiality by the Hong Kong government.

"The request by the Chinese side to station PLA personnel in Hong Kong is a matter of confidential discussions," said a government spokesman. "We were shocked therefore to see details of these talks being publicly revealed by a senior Chinese official."

The spokesman described as "a serious breach of confidentiality" comments by Mr Cheng Shousan, deputy director of the Chinese foreign ministry's Hong Kong and Macao Affairs Office.

Mr Cheng said at the weekend China would begin stationing PLA (People's Liberation Army) soldiers and support specialists in Hong Kong early next year to prepare for the arrival of the army garrison on July 1.

He added that their number would be "less than a few hundred", although Chinese television later put the figure at about 300, and said the advance team would carry arms.

"What kind of arms the PLA advance parties will take will need to be discussed with the Britain in the Joint Liaison Group," he said, referring to the Sino-British body overseeing handover issues.

The presence of a PLA garrison in Hong Kong is a sensitive issue in the territory. Concerns have been fuelled over recent weeks by uncertainty about whether PLA soldiers will be subject to Hong Kong law, an issue which still requires clarification.

Mr Chris Patten, the Hong Kong governor, recently indicated that the government would accept a small number of PLA personnel to prepare for the arrival of the garrison. But he stressed that they should be subject to Hong Kong law.

The government said it had protested strongly yesterday about the breach of confidentiality. It also rejected the need for any advance team to carry weapons and expressed concerns about its reported size.

"We must emphasise again that no decision has been taken and no agreement has been reached on the Chinese side's request for the stationing of advance personnel," said a government statement. "The community is naturally very sensitive about this issue and would expect the British side to proceed carefully and cautiously."

The numbers planned for the PLA garrison in Hong Kong remain unclear, although the most common estimates range between 6,000 and 8,000. However, China also intends to maintain garrisons in Shenzhen, the special economic zone across the border from Hong Kong.

Transport empire for Mahathir's son

By James Kynge in Kuala Lumpur

Mr Mirzan Mahathir, the eldest son of Malaysia's prime minister, Dr Mahathir Mohamad, yesterday took another step towards becoming the country's foremost transport mogul.

The company he controls, Konsortium Perkapalan (KPB), has through a subsidiary, Diperdana Corporation, offered to buy a Malaysian shipping company called PDZ Holdings, which operates a container shipping line serving south-east Asian ports.

It is Mr Mirzan's third transport acquisition this year and if the bid succeeds, it would provide Diperdana with its first foothold in Sarawak, an area of considerable growth potential where Asia's biggest infrastructure project, a dam, is being constructed. The bid offer would value PDZ at M$772m ($305m), analysts said.

Mr Mirzan, 37, has the highest profile of the prime minister's sons. But he generally shuns the limelight and like his siblings, he has displayed no political ambition. He does not hold a position of rank within the United Malays National Organisation, the dominant party within the ruling coalition.

Earlier this year, KPB, which is a land-based haulage operator, revealed its seafaring interests when it bought the Hong Kong-based shipping company, Pacific Basin. It paid US$230m for its outstanding shares, took on the company's debts and received a fleet of 23 vessels, with 13 on order from shipyards in China. At one stroke it became the nation's second largest shipping company, after the state-owned Malaysian International Shipping Corporation.

It also bought a shipping company called PNSL, which has 14 ships and two on order. Later, both Pacific Basin and PNSL were injected by KPB into Diperdana, creating a clear separation between KPB's haulage activities and Diperdana's shipping operations.

Much interest is now focused on whether Mr Mirzan will emerge as a leading contender to take a controlling stake in the national shipping line. The government said over a year ago its indirect 29.3 per cent stake in the company would be sold to the private sector. Industry analysts said that if the stake was sold to Mr Mirzan, he would completely dominate Malaysia's shipping and haulage business.

In such a position, he could better ensure that Malaysia acts to stem the large amounts of money it pays to foreign haulage and shipping companies. He could also help direct more cargo traffic through Malaysia's own ports, rsther than through neighbouring Singapore.

Mahathir Mohamad

Malaysia invests to wrest cargoes from Singapore

James Kynge reports on a drive to exploit cost advantages and get exporters to switch to Port Klang

The emergence of Mr Mirzan Mahathir as one of the prime movers in Malaysia's transport and shipping worlds is one of several strands in a strategy of national importance.

No effort is haing spared in attempts to build up Port Klang, the nation's leading port, into a regional hub capable of competing with the world's second busiest port, Singapore. The impetus for this drive is to stem the torrent of cash which Malaysians spend every year in dispatching about 56 per cent of their export cargoes through Singapore.

If these cargoes can be re-routed for export through Port Klang rather than Singapore, the country will have gone a long way toward solving one of its most pressing economic problems.

The worrying increase last year in Malaysia's current account deficit, the shortfall in the trade of goods and services, was to a significant extent because of payments by Malaysian companies for foreign port, shipping and freight insurance services. Of a current account deficit of M$18.7bn (US$7.4bn) last year, soma M$9.28bn came from the deficit in freight and insurance payments.

Although the government has predicted that the current account deficit will narrow this year to M$14.8bn, it remains one of Malaysia'a most pressing economic problems. Stock market investors, especially foreigners, bave long cited the shortfall as a key argument against investing in the local bourse.

In addition, the shipping of cargoes through Singapore increases the cost of Malaysia's exports and thereby reduces their compebtiveness, officials said. Exporters have first to pay haulage companies for transporting their cargoes to Singapore and then they must fork out for port handling charges which are recognised to be higher than those in Port Klang.

As an indication of the cost differential, the transhipment charge for one 20-foot equivalent unit (teu) container in Singapore is about US$88, as against about US$56 in Port Klang.

"We don't want to compete with Singapore but we have to try to handle our own cargo and take back that part of our cargo whicb goes through Singapore," said Mr M. Rajasingam, general manager of the Port Klang Authority, which oversees the port's operations.

An ambitious expansion project at Westport, part of the Port Klang complex, shows bow serious Malaysia is. About M$3bn is expected to be spent on increasing tha number of deep water berths at Westport from 12 to 32 in 2005, said a Westport official. By that date, it is hoped that the 3m teu of its cargo which now transit through Singapore will leave from any of the three terminals which make np Port Klang.

The success or failure of this endeavour will matter a great deal to Singapore; Malaysian traffic is a lucrative and growing business for the Port of Singapore Authority which in 1995 handled a total of 11.85m teu.

Malaysia's cost advantages have proven a potent lure for shipping lines operating on wafer-thin margins. In the first seven months of this year, 19 new shipping services started up from Port Klang. Some of these were mainline services which deliver cargoes to thair final destination, often across the Pacific. Others were calls by "feeder" ships to deliver cargoes for later collection by the mainline vessels.

It is these mainline services whicb Port Klang is keen to cultivate. Some shipping executives go so far as to predict that, ultimately, there will be room for only one mainline port on the Straits of Malacca – either Singapore or Port Klang but not both.

One crucial precondition for a mainline port is the ability to attract aufficient feeder cargoes to enabla mainline ships to take on a full load. It is for this reason that Malaysia's government is using its powers of persuasion to ensure that cargoes from the country's smaller ports are "fed" not to Singapore but to Port Klang. Exportars and transport companies, such as the one owned by Mr Mirzan, are being urged to send their goods to Port Klang so as to build up the amount of transshipment cargo at the port.

Malaysia is also hoping to attract feeders from the region.

"We want about 400,000 boxes [containers] from the Indonesian island of Sumatra, 600,000 from India and probably 100,000 boxes from Myanmar [Burma]," said Mr G. Gnanalingam, the managing director of Westport.

"All of these are now going to Singapore," he added.

Bangladeshis succumb to stock market fever

By Kasra Naji in Dhaka

At the end of another day of trading, Mr Imtiyaz Hussein, cbairman of the Dhaka Stock Excbange, looked stressed. "It's getting too bot for comfort. The prices bave gone up again. I don't know by how much, I just know that the index bas gone up again," be said.

Outside the excbange, a crowd of 20,000 bad congregated. This is Dhaka's "kerb-market" and it too is in bullish mood. Such was the people pressure outside tbe exchange tbat many were barred from entry.

The Dhaka index, which hovered around 1,100 in September, reached 3,587.68 yesterday after a 7 per cent rise on the day. Market capitalisation touched a record 237bn taka ($5.59bn) yesterday from Tk120bn on October 2. It was only Tk19bn at the end of 1994. Last week market turnover – still calculated manually – averaged Tk470m a day, ten times greater then in the first quarter, as retail investors put savings into stocks.

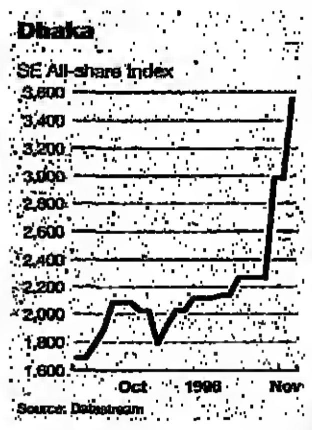
The feverisb demand has been driven, in part, by the political stability in Bangladesb since the election in tbe spring of the Awami League after almost two years of street agitation. Sheikh Hasina, the prime minister, has accelerated decision-making in key areas – telecoms licences and export-free zones, for instance – and committed ber government to further market reform.

"Here we have two markets on the go, with the kerb market driving the real market," said Mr Douglas Glen, the bead of sales and brokerage at Peregrine (Bangladesh). "There is a very strong retail demand chasing too few sbares," be said.

That is a reference to the thousands of small-time investors wbose equities excitement is on sbow each day outside the exchange. "Today, I sold shares worth about Tk50,000 ($1,180)," said one young man who until a few months ago used to work in Kuwait as a supervisor of a cleaning company. "I have prepared myself mentally for the day the prices might crash. I have made a lot of money, so what if I lose some," he said.

But for a blip three weeks ago, the Dbaka index bas defied market operators' expectations by its continnous rise, accelerating sharply from September.

To strengthen the market, tha stock exchange management has urged the government to bring forward from fiscal 1996-97 its planned sale of up to Tk2bn worth of shares in state-owned companies listad on tba exchange. The bope is that increased state sell-offs will take some of the heat out.



Last week Mr Haroonur Rashid, head of Bangladesh's Securities and Exchange Commission, said: "The government as a first step will privatisa the companies which are already listed with tbe Dbaka Stock Exchange to increase the market depth." He said the government would sell its stakes in multinational companies, which number about eight, by December.

"The government must act immediately. Why are they sitting on the shares of the state-owned Indnstriea which they have promised to release?" asked Mr Hussein.

See World Stock Markets

Congress hardens line over support for UF

By Mark Nicholson in New Delhi

Leaders of India's Congress party met last night to review its relationship with the governing United Front coalition, to which it lends crucial parliamentary support, amid anger in the former governing party at the UF's failure in turn to endorse a Congress-backed government in the state of Uttar Pradesh.

The meeting is likely to result in a more hostile and independent posture by Congress towards the 13-party coalition, though senior party leaders have indicated that the Congress Working Committee (CWC), the party's chief executive body, would fall short of withdrawing support for tha government.

Ties between Congress and the United Front have been strained since September's elections in Uttar Pradesh, India's most populous state and one of its most politically important.

The poll returned a bung parliament, with tbe Hindu nationalist Bharatiya Janata party (BJP) emerging as the biggest grouping but well sbort of a majority.

Congress had insisted the UF, whose combined parties also fell short of a majority, should back an alliance of Congress and the low-caste Bahujan Samaj party as a direct political return for its national-level support for the United Front. However, weeks of political wrangling failed to produce agreement and the UF last month reimposed central rule in the state.

The UF, which won 115 seats in the May national elections, depends upon the parliamentary support of Congress's 142 MPs.

Congress, along with the Communist Party (Marxist) agreed to support the minority 13-party coalition to keep the BJP, which also emerged as the largest party at national level, from power.

Behind last night's meeting lies an attempt by Mr Sitaram Kesri, Congress president, to revive both the morale and independent standing of the party, which had governed India for all but a few years since independance until its poor showing in the May polls.

Since its election defeat, Mr P.V. Narasimha Rao, former prime minister and Congress president until last month, has been charged in two conspiracy cases and facea swindling cbargea in a third case later this week. Three other former Congress ministers have also been charged in corruption cases.

As part of his attempts to refurbish Congress's sullied image, the 78-year-old Mr Kesri last month appointed Mr Manmohan Singh, the widely respected former Congress finance minister, to the CWC and charged him with keeping "critical scrutiny" of the UF's economic policies.

Mr Kesri has also begun efforts to persuade several former Congress MPs and factions tbat split from tbe party before the May elections to defect from the UF back to the mother party.

ASIA-PACIFIC NEWS DIGEST

Dalai Lama asked to Taipei

A Taiwanese religious group has invited the Dalai Lama to Taiwan near the end of the year – a move which, should he accept, would infuriate China. The Buddhist Association, a Taiwanese private religious organisation, said it was awaiting a response. Taiwan's president, Mr Lee Teng-hui, has said he would welcome a visit from the Dalai Lama, as a religious leader.

A visit by the Dalai Lama to Taiwan, whicb Beijing regards as a renegade Chinese province, would hit a sensitive nerve. It is unclear whether the Dalai Lama would meet Taiwanese officials but China is bitterly opposed to efforts by Taipei and the Dalai Lama to forge international ties.

■ Taiwan's mainland affairs council, a cabinet-level agency, yesterday decided to lift a ban on the posting of mainland Chinese journalists in Taiwan. The measure is an attempt by Taipei to thaw ties between the two governments. *Laura Tyson, Taipei*

Hong Kong GDP rises 4.3%

Strong investment underpinned a 4.3 per cent year-on-year rise in Hong Kong's gross domestic product in the second quarter of 1996, against a rise of 3.3 per cent in the preceding three months, official statistics showed yesterday. Economists said the performance reflected the territory's recovery from economic slowdown in 1995.

Gross domestic fixed capital formation rose 10.4 per cent in the second quarter, against the same period in 1995. Spending on machinery and equipment remained robust, rising by just under 16 per cent: private-sector construction spending showed its first rise in six consecutive quarters. Private ronsumption remained weak, rising 2.5 per cent in real terms after increasing 3.4 per cent in the first quarter. Domestic exports fell 9 per cent; re-exports' growth rate slowed. imports growth fell to 5.2 per cent. *John Ridding, Hong Kong*

Indian steel group cuts jobs

Tata Iron and Steel Co (Tisco), India's second largest steelmaker and flagship of the Tata group, plans to cut its workforce by a further 10,000 over the uext three to five years, through voluntary redundancy. The move, the biggest planned workforce reduction in Indian corporate history, follows the closing of manufacturing facilities st Tisco's Jamshedpur plant in Bihar state, as part of a modernisation programme.

Workforce reduction programmes are rare in India because of tight labour regulations and the high cost of voluntary redundancy schemes. The number of Tisco employees has fallen from 78,000 to 70,000 over the past 18 months through voluntary redundancy. This saw the company make a provision of Rs419.7m ($11.8m) in its results for the six months to September 30 for such costs.

Workers under 40 accepting redundancy will be paid their present salary up to age 60. Employees aged 40-45 will be paid 1.25 times their salary; older workers will receive 1.5 times. *Tony Tassell, Bombay*

China dissident can appeal

Beijing's Supreme Court gave permission yesterday for Mr Wang Dan to appeal against his 11-year sentence for allegedly plotting against the government. The appeal will be held *in camera*, without Mr Wang or his defence team, his lawyer Mr Yang Dunxia said. "The court asked me bring my appeal documents to the supreme rourt next Monday," the dissident's mother, Mrs Wang Lingyun, said. Mr Yang said he did not know when the appeal would be held. Wang's 11-year sentence was widely condemned in the west. *AFP, Beijing*

Bhutto rival back in office

Mr Manzoor Wattoo, a rival of Pakistan's prime minister Benazir Bhutto, yesterday began his first day back in office as chief minister of Punjab by sacking several officials and ordering the release of detained studeuts. Mr Wattoo, dismissed 14 months ago by presidential decree, vowed to fight "undemocratic" methods in the country.

Ms Bhutto warned the Punjab assembly wuuld decide his future. The High Court said the chief minister cuuld be asked to prove his legislative majority within 10 days, failing whicb be must quit. *AFP, Islamabad*

Iata vows to challenge Britain in the courts over 'impossibly low' curbs on airport take-off noise

Fuel costs 'threaten airline profits'

By Frances Williams in Geneva

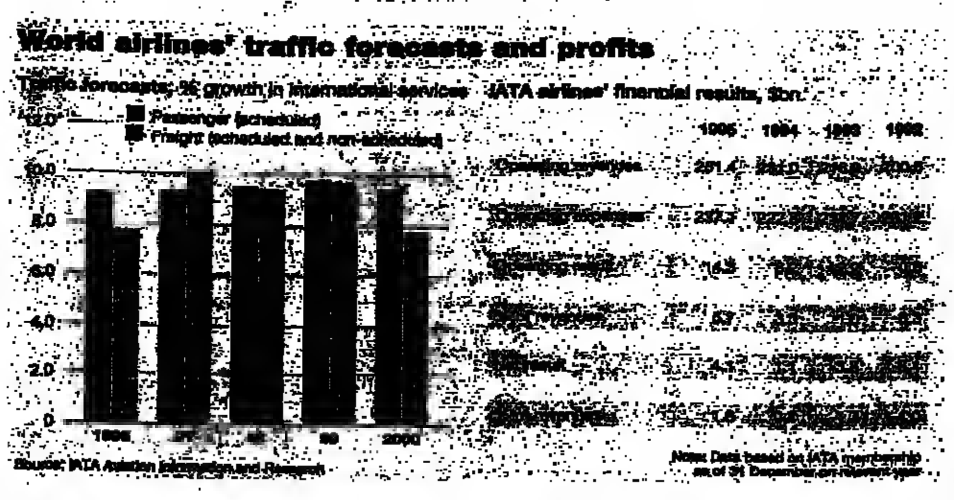
The airline industry is heading for a second year of record profits but soaring fuel costs and other charges threaten its "profitable flight path", the International Air Transport Association warned yesterday.

Mr Pierre Jeanniot, Iata director-general, told the association's annual meeting in Geneva that its 254 member airlines were likely to generate net profits on international scheduled services of about $5.5bn in 1996, up from last year's $5.2bn.

Results have been boosted by increased passenger and freight traffic, and vigorous cost-cutting efforts, Mr Jeanniot said. However, in April he predicted profits of $6bn this year. The difference is accounted for mainly by rising prices for jet diesel fuel, which makes up 11 per cent of airline costs.

The jump in fuel prices that followed the firing in September of US cruise missiles against Iraq is costing the international airlines $382m on an annual basis, Mr Jeanniot said.

Many European airlines have already decided to put up prices because of fuel costs. Air France, KLM and Northwest yesterday joined a lengthening list of airlines forced to raise fares because of fuel price rises. Swissair, KLM and Lufthansa also announced yesterday increased cargo fares.



Iata has called an emergency meeting in Geneva next week to discuss a response by its members, which account for 98 per cent of international routes.

The Mr Jeanniot also announced yesterday that Iata planned a legal challenge to the British government's decision to introduce new noise limits at London's three airports. He told a news conference that Iata was hoping for quick action to "get a judge to put a stay on the rule". The association is taking legal advice on how best to proceed.

Iata's board agreed on Sunday to seek a judicial review of the British decision, which it said "could have far-reaching consequences for civil aviation operations in other parts of the world".

Mr Jeanniot, former boss of Air Canada, said limits had been set impossibly low, giving airlines little option but to break them on almost every take-off and incur heavy fines.

"These very stringent restrictions would affect nearly every airline operating into and out of London," he said.

"Even the most modern aircraft would not be able to conform if they take off with a full load."

The new limits, applying to Heathrow, Gatwick and Stansted airports, will cut permitted noise levels for departing aircraft. Britain's transport department is also considering the feasibility of setting new noise limits for landing aircraft.

Mr Jürgen Weber, Lufthansa chairman, said yesterday the British move "could set a very bad example".

Visa launches multi-function smart cards

By Mark Ashurst in Johannesburg

Visa International yesterday launched its first multi-function smart cards in partnership with two South African retail banks, First National and Nedcor.

The new cards combine debit, credit, and pre-paid facilities, by using a microchip in place of the traditional magnetic strip.

Ms Anne-L. Cobb, president of Visa Central and Eastern Europe, Middle East and Africa, said the deal fulfilled "Visa's vision of the future of card payment products". Chip-based cards would replace paper-based and magnetic strip-based cash systems within 20 years, she said. South African banks were "very much in the lead" in developing this technology for debit and credit services.

FNB and Nedcor have issued more than 200,000 multi-function cards, under their own brands, since the South African industry agreed on an inter-bank standard for smart cards in October 1995.

These cards will now be branded with Visa, and will be converted to international EMV, Europay-Mastercard-Visa, standards by the end of next year.

A common standard for card transactions in South Africa had been adopted later than in many developed countries, but was already close to the international EMV standards agreed earlier this year. The South African variant would "allow customers access to multiple accounts at their financial institution," said Ms Cobb. In time, the cards would also be used to encourage loyalty programmes and to store personal information.

The Visa branding is expected to raise use of multi-function cards. Ms Gail Kelly, general manager of Nedcor card services, said the two banks would invest R5bn-R7bn ($1.1bn-$1.5bn) in upgrading technology at retail points and banking machines with the aim of issuing 1m new cards within a year.

In June, Visa acquired the rights to the Universal Electronic Payments System, a software package used by South African banks to manage inter-bank cashflows. The group was "working with the two South African banks to implement the future platform" for global interoperability, said Ms Cobb.

South African banks have pioneered chip-based cards because of the country's poor telecommunications infrastructure and an over-reliance on cash in a society riddled with violent crime. It was initially devised by South African brewers as a safer and more efficient alternative to cash on delivery. Less than 30 per cent of credit card transactions are authorised on-line because of telecommunications problems.

However, a microprocessor and memory chip embedded in the new cards keeps track of clients' spending, reducing the banks' risk in card transactions. This would make formal banking services more widely available to low income groups, said Mr Viv Bartlett, FNB managing director.

The cards, secured by personal PIN codes, enabled "off-line transactions without the umbilical cord linking points of sale to mainframes". They could also be prepaid for use as "an electronic purse", which was a safer alternative to cash.

Ms Kelly said the South African model should not be compared with current projects involving the use of smart cards for electronic commerce in Australia, France and Japan. "We are not testing. We are authorising credit cards and debit cards."

Obituary: Jean-Bedel Bokassa

'French Africa's Idi Amin'

By dying in a hospital bed, Jean-Bedel Bokassa, the former self-styled "emperor" of the Central African Republic, enjoyed a privilege denied to the victims of his regime.

The 13-year rule of the 75-year-old once-dictator was characterised by a brutality that won him the nickname "Francophone Africa's Idi Amin". Cannibalism, infanticide and mass murder were among the charges levelled against him at trials staged after his expulsion by the French, his former allies and protectors.

His huge excesses suggested a deeply disturbed individual. But they also epitomised, at its most extreme, a wider phenomenon: the failure of young African states, undermined by a corrupt elite and the cynical indulgence of former colonial powers playing cold war politics, to cope with independence.

The son of a village chief, Bokassa was six when his father was assassinated; he was then orphaned by his mother's suicide - events that left him permanently scarred.

Joining the French army in 1939, he fought with the Free French forces and won a dozen medals in Indochina before leaving to form the army of the Central African Republic, which had just won independence from Paris. Six years later he ousted the first president of the underdeveloped nation.

At first Bokassa did his best to restore his country's finances, eradicate corruption and boost agricultural production.

Jean-Bedel Bokassa, former self-styled emperor of the Central African Republic Reuter

But as his hold on power tightened and his grasp of reality weakened, megalomania began and the country slipped ever deeper into poverty.

One edict stipulated that thieves should have one ear cut off for one theft, two ears for two thefts and a hand for three thefts. To mark Mother's Day, women prisoners were released and men convicted of assaulting women executed.

In 1976, modelling himself on Napoleon Bonaparte, he declared himself emperor, staging a coronation so lavish it drained an estimated quarter of the country's annual foreign exchange earnings.

Such antics made him a laughing stock abroad, but France - the real power behind the throne - tolerated his continuing presence as part of its policy of maintaining former African colonies as a political and economic *chasse gardée* (private hunting ground).

The Central African Republic provided a convenient base for crack troops on standby to intervene to protect French interests across the continent. In return, hefty aid from Paris kept the faltering economy afloat.

Nonetheless, the end came in 1979, when Bokassa's soldiers rounded up 200 schoolchildren who were refusing to buy uniforms at a shop owned by his wife and tortured, suffocated and shot them to death. While Bokassa was visiting Libya, France installed a cousin as president.

Tried in absentia, Bokassa emerged as a monstrous figure.

His cook testified that he had kept human bodies in a freezer and served them to the emperor for dinner; others spoke of victims being fed to pet lions. He was sentenced to death.

Yet in 1986 he was back, apparently unable to tolerate a life of quiet exile in his chateau outside Paris and convinced he still enjoyed a following at home. This time he was sentenced to life but later, having discovered religion in jail, he was released under a presidential amnesty.

Like many an outcast leader before him, Bokassa enjoyed something of a revival in his later years among a population yearning for certainties of the past. During the country's last elections, when he was still in prison, posters of him went up, and a minority called on him to stand as a candidate.

Their wish was not granted.

Michela Wrong

UK seeks new Mideast forum

By David Gardner in Abu Dhabi

Britain's foreign secretary, Mr Malcolm Rifkind, called last night for a new forum of co-operation in the Middle East, to include the Arab countries and their neighbours, on the model of similar bodies which emerged after the cold war to link west and east Europe.

In a speech on British policy in the Middle East delivered in Abu Dhabi to the Emirates Centre for Strategic Studies and Research, he said: "There would be clear benefits in establishing what we might call an Organisation for Co-operation in the Middle East (OCME)".

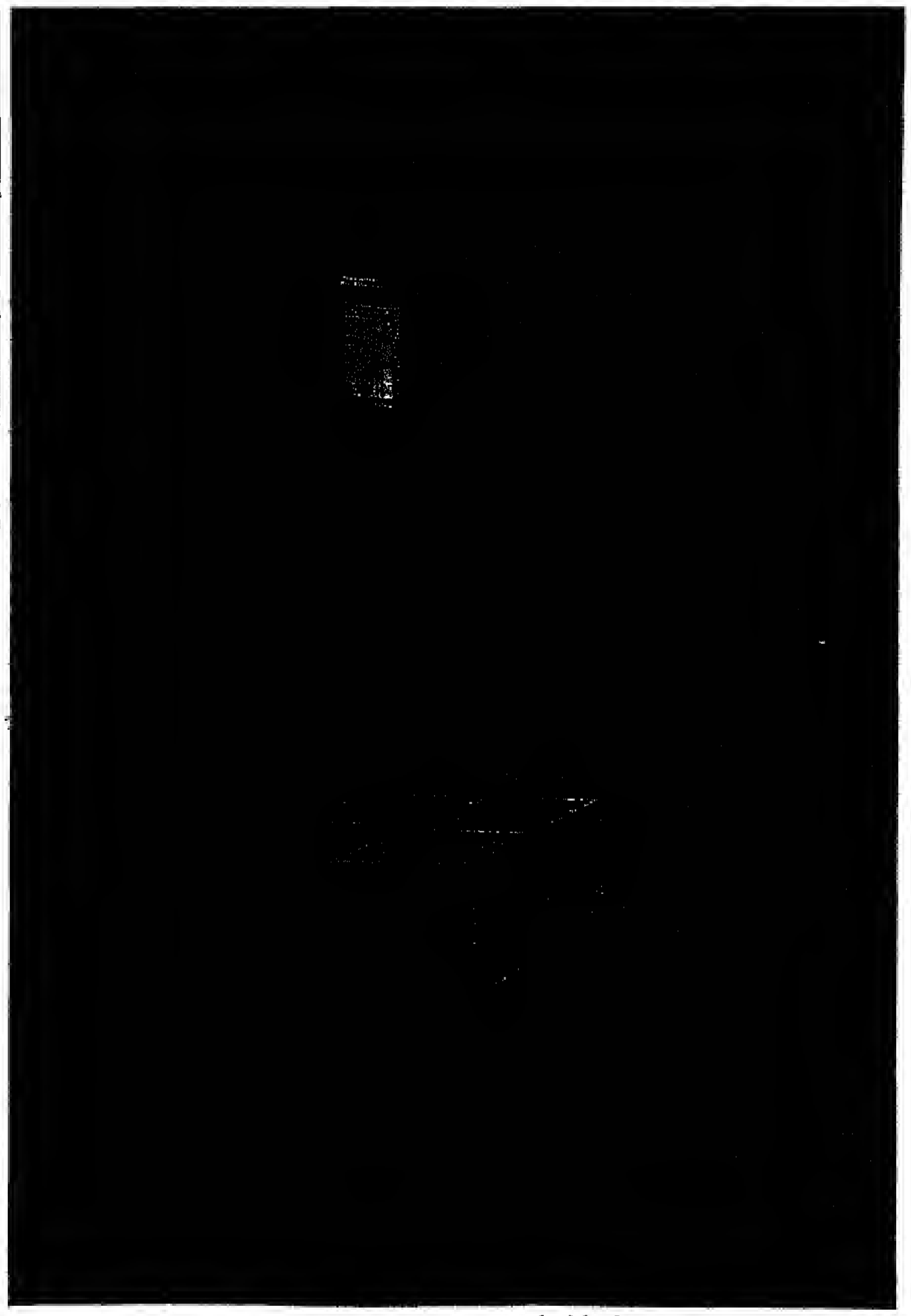
The proposal, already discussed with Mr Warren Christopher, US secretary of state, and similar to ideas put forward by Crown Prince Hassan of Jordan, would create a body like the Organisation for Security and Co-operation in Europe (OSCE), perhaps along with some of the economic functions of the Organisation for Economic Co-operation and Development (OECD).

The eventual goal would be to include all the Arab countries, plus Israel, Iran and Turkey, along with countries "not in, but of the region", such as the US, Russia, Britain and France, Mr Rifkind said.

"In Europe, we have learned how regional co-operation can heal the distrust between former enemies and build peace and prosperity," through organisations such as the EU and Nato.

"But we have also learned the value of having a comprehensive body where *every* nation in the region can come together on a basis of equality to work on problems affecting them," he added, referring to OSCE.

"It would be a forum in which the political tensions in the region as a whole could be dealt with," Mr Rifkind added.



INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES					JAPAN					GERMANY				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.8	102.1	99.8	85.0	100.9	95.3	101.4	102.8	118.5	99.8	97.5	103.6	103.8	107.4
1987	105.6	100.7	103.9	97.6	76.1	101.3	92.5	103.1	100.0	122.8	100.1	95.0	107.9	107.1	110.9
1988	109.9	103.2	109.9	99.4	71.0	102.4	92.3	107.6	96.0	131.0	101.4	96.2	112.6	106.6	109.8
1989	115.2	108.5	109.9	101.4	74.9	105.1	94.2	114.0	96.8	123.5	104.2	99.3	117.1	108.0	107.5
1990	121.9	113.9	113.5	104.0	73.2	108.4	95.7	120.1	99.7	106.2	107.0	101.0	123.5	110.3	109.9
1991	126.6	116.3	117.3	107.3	74.1	111.9	96.8	124.2	103.9	113.2	110.8	103.4	131.3	109.5	107.5
1992	130.4	117.7	120.1	107.0	74.1	114.0	95.9	125.6	112.8	114.6	116.5	104.9	138.2	115.4	110.3
1993	134.3	119.2	123.1	106.7	76.6	116.4	94.3	125.8	118.8	132.3	121.7	105.1	145.6	119.4	112.2
1994	137.8	118.9	126.5	105.4	74.6	116.2	92.8	128.4	118.6	137.8	125.1	105.7	150.8	112.1	110.7
1995	141.7	122.2	129.7	105.4	66.9	115.9	92.0	132.5	116.8	138.8	127.4	107.5	155.6	110.8	115.6
4th qtr.1995	2.7	2.2	2.6	0.7	70.1	−0.8	−0.7	3.2	−1.2	126.6	1.7	1.3	4.3	3.0	115.1
1st qtr.1996	2.7	2.2	2.7	−0.2	72.0	−0.8	−0.8	1.8	−0.4	122.4	1.6	−0.2		3.7	113.1
2nd qtr.1996	2.9	2.4	3.4	−0.8	73.4	0.1	−0.9	1.8	−0.5	121.0	1.5	−0.6		0.0	110.3
3rd qtr.1996	2.9	2.6	3.4		73.6	0.0				118.2	1.4	−0.6			110.9
October 1995	2.6	2.3	2.7	0.7	69.5	−0.9	−0.6	2.3	−2.4	127.4	1.8	1.6	n.a.	3.0	115.8
November	2.6	2.1	2.5	0.7	69.9	−1.0	−0.8	1.2	−0.4	125.9	1.7	1.3	n.a.	4.1	118.1
December	2.5	2.3	2.7	0.7	70.7	−0.5	−0.9	4.3	−0.9	126.4	1.8	1.2	n.a.	2.0	114.8
January 1996	2.7	2.2	3.4	0.2	71.8	−0.5	−0.8	−0.1	−2.3	122.7	1.5	0.0	n.a.	2.0	113.7
February	2.6	2.0	2.8	−0.7	72.1	−0.3	−0.9	8.0	−2.4	122.4	1.6	−0.2	n.a.	8.1	113.2
March	2.8	2.4	2.2	−0.2	72.3	−0.2	−0.9	2.7	3.4	122.1	1.7	−0.3	n.a.	1.0	112.1
April	2.9	2.5	3.5	−0.1	73.0	0.2	−0.9	2.4	−0.1	121.2	1.5	−0.5	n.a.	−1.0	110.9
May	2.9	2.8	3.4	−0.1	73.4	0.1	−0.8	2.1	−2.5	122.4	1.7	−0.5	n.a.	1.0	109.9
June	2.8	2.7	3.4	−0.6	73.9	−0.1	−0.9	0.8	1.2	119.2	1.4	−0.6	n.a.	0.0	110.0
July	2.9	2.6	3.2	−1.1	73.6	0.4	−0.8	3.6		118.8	1.8	−0.7	n.a.	−2.0	110.8
August	2.8	3.0	3.5	0.2	73.4	0.0	−0.7	5.6		118.0	1.4	−0.7	n.a.		111.2
September	3.0	2.8	3.4		74.2	−0.4				117.1	1.4	−0.6	n.a.		110.4

	FRANCE					ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	102.5	98.0	104.5	101.6	103.4	106.1	100.2	104.8	102.7	101.3	103.4	101.4	107.7	105.1	94.3
1987	105.9	98.1	107.8	103.0	104.6	111.0	103.2	111.8	105.5	102.2	107.7	104.9	116.3	107.5	94.6
1988	109.9	102.9	111.1	104.1	102.1	116.5	106.6	118.4	109.7	101.0	113.0	108.7	126.2	110.3	101.9
1989	112.6	108.2	115.4	105.2	99.6	124.2	113.1	125.6	112.3	105.8	121.8	113.9	137.2	115.1	100.5
1990	116.5	107.1	120.6	109.6	102.9	131.7	117.6	134.7	118.8	112.0	133.3	121.0	150.1	122.7	101.4
1991	120.2	105.9	125.8	113.4	100.7	140.3	121.7	147.8	129.5	113.2	141.2	127.5	162.4	129.5	104.4
1992	123.1	104.3	130.3	116.6	102.6	147.7	124.0	155.9	134.4	109.9	146.4	131.5	173.1	130.5	101.1
1993	125.6	101.6	133.5	116.1	101.9	153.9	128.7	161.6	136.7	96.2	148.7	136.7	180.9	130.4	93.6
1994	127.7	102.7	135.9		101.4	160.0	133.5	167.0	137.9	94.2	152.4	140.1	189.5	130.1	94.6
1995	130.0	109.7	139.0		101.4	166.6	144.0	172.2	138.0	91.2	157.8	146.0	198.0	134.2	91.2
4th qtr.1995	1.9	3.3	2.6		102.3	5.9	7.2	3.9	1.0	94.2	3.2	4.4	3.9	4.2	90.5
1st qtr.1996	2.1	−1.2	2.6		101.6	5.0	4.8	1.9	1.1	99.2	2.8	3.6	4.4	3.5	90.9
2nd qtr.1996	2.4		2.5		101.7	4.2	1.5	2.1		103.1	2.3	2.9	4.2	3.9	92.2
3rd qtr.1996	1.9		2.6		101.0	3.5				103.6	2.2	2.1			93.5
October 1995	1.9	n.a.	n.a.	n.a.	101.7	5.8	7.9	3.9	n.a.	93.1	3.2	4.4	4.0	4.0	91.1
November	1.9	n.a.	n.a.	n.a.	102.7	6.0	7.2	3.9	n.a.	94.0	3.1	4.4	3.7	4.2	90.2
December	2.1	n.a.	n.a.	n.a.	102.3	6.6	6.5	3.9	n.a.	95.5	3.2	4.4	4.1	4.6	90.1
January 1996	2.0	n.a.	n.a.	n.a.	101.4	5.5	5.9	1.9	n.a.	98.1	2.9	3.5	4.0	2.8	90.6
February	2.0	n.a.	n.a.	n.a.	101.2	5.0	4.9	1.9	n.a.	99.6	2.7	3.7	4.8	4.2	91.8
March	2.3	n.a.	n.a.	n.a.	102.3	4.5	3.6	1.9	n.a.	100.1	2.7	3.4	4.6	3.6	90.9
April	2.4	n.a.	n.a.	n.a.	102.1	4.5	2.6	2.0	n.a.	101.9	2.4	3.2	4.3	3.6	91.1
May	2.4	n.a.	n.a.	n.a.	101.6	4.3	1.3	2.0	n.a.	103.5	2.2	2.8	4.0	3.8	92.1
June	2.3	n.a.	n.a.	n.a.	101.5	3.8	0.8	2.2	n.a.	104.0	2.1	2.6	4.3	4.2	93.6
July	2.3	n.a.	n.a.	n.a.	101.4	3.6	0.2	1.9	n.a.	103.6	2.2	2.2	4.4	3.9	93.3
August	1.6	n.a.	n.a.	n.a.	101.0	3.4	0.0	1.9	n.a.	103.1	2.1	2.0	4.5	5.3	92.4
September	1.6	n.a.	n.a.	n.a.	100.6	3.4			n.a.	103.9	2.1	2.2			94.6

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

Sinn Féin link is renewed

N Ireland peace effort stepped up

By John Murray Brown in Dublin and John Kampfner in London

The governments of Britain and the Republic of Ireland yesterday acknowledged that indirect contacts had been renewed with Sinn Féin, the political wing of the Irish Republican Army, in an effort to secure a new ceasefire by the IRA.

It emerged that Mr John Hume, leader of the moderate nationalist Social Democratic and Labour party, had made "representations" to the British government on Sinn Féin's behalf about the conditions for the party's participation in negotiations on the future of Northern Ireland.

British ministers vehemently denied charges from anti-nationalist politicians in Northern Ireland that the government was involved in backdoor negotiations with Sinn Féin. But in a sign of the delicate stage of the diplomacy, it emerged that officials did not publicise a telephone conversation between Mr John Major and Mr John Bruton, the British and Irish prime ministers, which was said to have taken place 10 days ago.

Some of Mr Major's contacts with individual Northern Ireland party leaders have also gone unannounced, most recently with Mr David Trimble, leader of the Ulster Unionists, last week. Mr Trimble's party is the largest pro-British party in Northern Ireland.

Reports in an Irish newspaper at the weekend suggested that London had dropped its insistence that any new IRA ceasefire be declared "permanent" and instead was seeking a three-month "decontamination" period before Sinn Féin could join the other parties in substantive negotiations.

The Northern Ireland economy continues to outperform other UK regions, but there are growing concerns that the political uncertainty may discourage future investment, John Murray Brown writes.

Coopers & Lybrand, the accountancy firm, said Northern Ireland enjoyed strong export-led growth, although economic performance is not as buoyant as in 1995 because of "concerns about the current political situation". The report says the region has been hit by the "mad cow" crisis, with farmers, processors and ancillary services "severely affected".

Sir Patrick Mayhew, chief Northern Ireland minister in the British government, confirmed that Mr Hume had made "representations" on Sinn Féin's behalf. However he said that "categorically there is no question of negotiations with Sinn Féin, no deals with the IRA, no deals with Sinn Féin".

In Dublin, Mr Bruton said he was "obviously aware of everything as it develops" highlighting the "serious re-thinking" going on within hardline republican ranks.

The terms for any IRA ceasefire will have to be flexible enough to coax the republicans to abandon the struggle while not too lenient to alienate pro-British politicians in the region.

● Mr Ronnie Flanagan yesterday succeeded Sir Hugh Annesley as chief constable of the Royal Ulster Constabulary, Northern Ireland's police chief. Mr Flanagan attracted criticism from anti-nationalists at the weekend for saying that he would not seek to "defend the union [of Northern Ireland and Great Britain]" but to create a neutral work environment.

Bill Gates, chairman of Microsoft, discussed computers to London yesterday with British political leaders. He met Tony Blair, leader of the Labour party, after talks at 10 Downing Street with prime minister John Major (above, right). The British government is expected to publish a discussion paper on information technology this week

Cabinet faces spending warning

By Robert Peston, Political Editor

The cabinet is expected today to face strong demands for increased resources from the health, education, defence and social security secretaries. They are expected to predict dire consequences for public services if current proposals for their spending allocations for 1997 to 1998 are not amended.

The meeting is being held to discuss the spending programme proposed by EDX, the ministerial committee on public expenditure chaired by Mr Kenneth Clarke, chancellor of the exchequer.

He will bluntly tell his colleagues that if tough choices are not made, they can rule out any expectations of net tax cuts in the national Budget on November 26. Ministers said that for all the widespread predictions of deadlock in the annual expenditure negotiations, it is possible that the overall spending limit – known as the control total – will be agreed today.

This would be an important milestone in preparations for the Budget, since it is the background against which decisions on tax reductions are made.

By tomorrow, or the end of the week at the latest, the control total is expected to be set at around £266bn, ($433.6bn) or around £2bn less than the level pencilled in a year ago.

One of the more intractable disagreements in the spending talks has involved Mr Stephen Dorrell, the health secretary. He has demanded an extra £1bn of resources for next year, on top of the £34.2bn already earmarked.

Mr Clarke has offered half of this, because he is unpersuaded by Mr Dorrell's forecast of dire increases in hospital waiting lists if the additional funds are not made available.

The cabinet is expected to play safe and settle for an estimated £700m of extra health spending. "In the run-up to a general election, it would be disastrous to take even a faint risk of a health service crisis", said a senior minister.

Meanwhile Mr Peter Lilley, the social security secretary, has been resisting Treasury pressure for a greater squeeze on single parent benefits than he believes makes political sense so close to an election.

There will however be a freeze on cash payments to lone parents for the second year running.

Philip Stephens, Page 14

A very reliable way of losing your money

Thousands of people are gambling large sums on short-term movements in currencies

Just when it seemed that 1996 would be remembered as the year of the ostrich, high-risk schemes designed to speculate on the "rolling spot" foreign exchange market have emerged as the favourite way of separating credulous investors from their money.

Thousands of people in many countries have succumbed to telephone sales pitches to gamble huge sums on short-term movements in currencies. The highly leveraged schemes – a stake of £20,000 ($32,600) could control a trading position of £1m – have multiplied potential profits or losses. In most cases, these people have lost – often their entire investments. In many cases the losses were worsened by high commission charges, and there is a suspicion that many accounts were over-traded.

Companies have also shown a marked reluctance to stop trading or return money when customers wanted to close accounts. The schemes have been promoted by companies across Europe and in the US, taking advantage of legal loopholes and gaps in regulation.

Victims come from every part of Europe the Gulf states, Asia and sub-Saharan Africa. But while the losers are very unlikely to regain their money, other investors can learn from their painful example.

Such speculative foreign exchange schemes are a totally different proposition from ordinary foreign currency deposits which carry far lower risks. Cold calls, even where legal, are a dubious way to sell complex financial products. A company's decision to use this method should be a warning.

Like most telephone salesmen, those peddling forex trading work to a script. The ones we have seen are so loaded towards persuasion, and leading on the prospective customer, that any notion of "best advice" is nonsense, regardless of the "risk" warnings given.

This is not surprising, since many of today's cold-callers have been at it for years. The company names and products may change but the techniques remain the same.

In a business where "once a punter, always a punter" is the first commandment, salesmen guard their "leads" carefully and carry them from job to job. Indeed, there have been reports that stakes in companies have changed hands in return for customer lists.

Many forex schemes take care not to make calls in the country where the sales operation is based, to reduce the chance of embarrassing pressure from the local regulator. They are typified by complex and opaque corporate structures and use of jurisdictions where secrecy is the rule.

If you send your money to one of these companies, expect it to be a one-way trip. Leveraged investments in volatile forex markets are highly risky and commission structures make it hard to break even – even when the market moves in your direction.

Companies argue that customers "want to lose", that they lack the discipline to take losses, or that they treat their speculations as a "fun" gamble.

This is hard to square with the serious tone of their sales pitches, or with overwhelming evidence that customers in losing positions come under heavy pressure to put in more money to try to recoup losses.

If you want to gamble, go to Las Vegas. The odds on the slot machines are better, the neon is brighter and the popcorn is free.

In the UK, such forex firms must get authorisation from the Securities and Futures Authority, which regulates securities and futures brokers. But the SFA's list of applicants for authorisation is getting progressively shorter, with far more "withdrawing" their names than winning approval. Denmark's Finanstilsynet is also winnowing its list of applicants.

In spite of this, the cold-callers will continue. They will move to new jurisdictions, find new products and even approach in new guises – such as that of "independent" introducing agents.

Regulators depend on public tips and complaints to begin their accumulation of evidence. Inevitably, therefore, they start with a disadvantage in trying to tackle any particular forex scheme. Too often, several individuals make large losses before the regulators can act.

To minimise the number of people caught in each case, the pace of exposure must be accelerated.

Clay Harris

Farmers may be ordered to stop using sheep dip

The opposition Labour party will tell farmers not to use organophosphorus (OP) sheep dips on safety grounds if it wins the forthcoming general election, Alison Maitland writes.

Mr Michael Meacher, the party's environmental protection spokesman, said yesterday there was "unquestionably a *prima facie* case for recommending they should not be used". He said a Labour government would not have enough evidence to justify a full ban but would strongly advise farmers not to use OP dips "pending exhaustive investigations as to their safety".

About 500 farmers, including Mr Tom King, the former Conservative defence secretary, have attributed symptoms to use of OP sheep dips. Reported symptoms include weakness, nausea and diarrhoea, muscle tremors, abdominal pain, lung constriction, depression and suicidal impulses.

OPs have also been implicated by some campaigners in bovine spongiform encephalopathy (BSE), or "mad cow disease". Mr Mark Purdey, a farmer from Exmoor in south-west England, argues that the pesticide used to treat warble fly damages proteins in cows' central nervous system.

The government decided last year not to bow to calls for a moratorium on OP sheep dips. But it put £500,000 into a study by the Institute of Occupational Medicine in Edinburgh into the possible long-term health effects of exposure to the chemicals. The results are not expected until 1999.

Mr Meacher said this was too long to wait. Pointing out that the chemicals were now a prime suspect in "Gulf war" syndrome among returning veterans, he called for a review of the licensing system for OPs to reduce government dependence on toxicity information supplied by the manufacturers.

BUSINESSES FOR SALE

Clare Bellwood 0171 873 3234 — Fax 0171 873 3064 — Karl Loynton 0171 873 4874

Banks attack accountants' liability limit

By Jim Kelly, Accountancy Correspondent

The Big Six accountancy firms in the UK have been criticised by merchant banks for agreeing a ground-breaking "accord" to limit their legal liability to a maximum of £25m ($40.75m) when advising on certain private deals. The Big Six are KPMG, Coopers & Lybrand, Arthur Andersen, Deloitte & Touche, Ernst & Young and Price Waterhouse. Under the contracts, clients would in effect have to agree a cap on the extent to which they could sue their advisers if a deal failed because of negligent advice or work on the part of the accountants.

Mr Anthony Beevor of Hambros Bank said the "fixed ceilings" and "non-negotiable nature" of the contracts "ought to attract the critical attention of the competition authorities". Mr Beevor, chairman of the corporate finance committee of the London Investment Bankers Association, said: "The principle is acceptable but it should be left to negotiation."

The new contracts will be seen as an attempt by the firms to try to stem rising legal costs by contract – while they are still pressing for reform of the law in those areas where their liability is unlimited.

The Big Six, on legal advice, have submitted the accord to the Office of Fair Trading. Mr Alan Comber, of KPMG, said: "The Big Six has acted on the matter of liability in due diligence work to venture capitalists as a response to pressure from the DTI to limit our liability within the existing law."

The contract cap will mainly affect management buy-outs. It would have caught about 500 deals last year, 12 of which were worth more than £100m.

Under the cap, the liability of the accountants is limited to the lowest of three criteria – the so-called transaction size, £25m, or a special cap negotiated on deals with a higher than normal risk factor.

Under the contracts the parties agree to ask a court to apportion blame after a deal fails. As a result, the cap can be revised downwards but not upwards. "Importantly, our OFT submission sees proportionality as a key principle alongside capping," said Mr Comber.

On a wider front, the merchant banks have opposed the big firms capping liability by contract because they fear the liability will shift to them.

Oxford to vote today on Said's offer

By Richard Wolffe in Oxford

Oxford University teachers will vote today on controversial plans to build a £40m ($65m) business school on a undeveloped city-centre site.

Academic opposition to the business school has mounted since the plans were announced in July after a £20m donation by Mr Wafic Said, the Syrian-born entrepreneur with links to the Saudi royal family.

A meeting of the university's congregation, or parliament, will decide today whether to build the Said Business School on a sports ground used by university staff. Many academics have backed a campaign by more than 1,000 university staff to block the building.

University leaders remain confident they will win the ballot, saying Oxford needs a world-leading masters in business administration course. The university's first intake of about 50 MBA students arrived last month.

However, the business school faces more serious opposition from members of Oxford City Council, who appear unlikely to grant it planning permission.

At the centre of the controversy is the site itself, close to Mansfield College.

Both the university and Mr Said are keen to place the business school "at the heart of the city and the university". But when the university bought the land in 1963, it promised to maintain the sports pitches as a green space "in perpetuity".

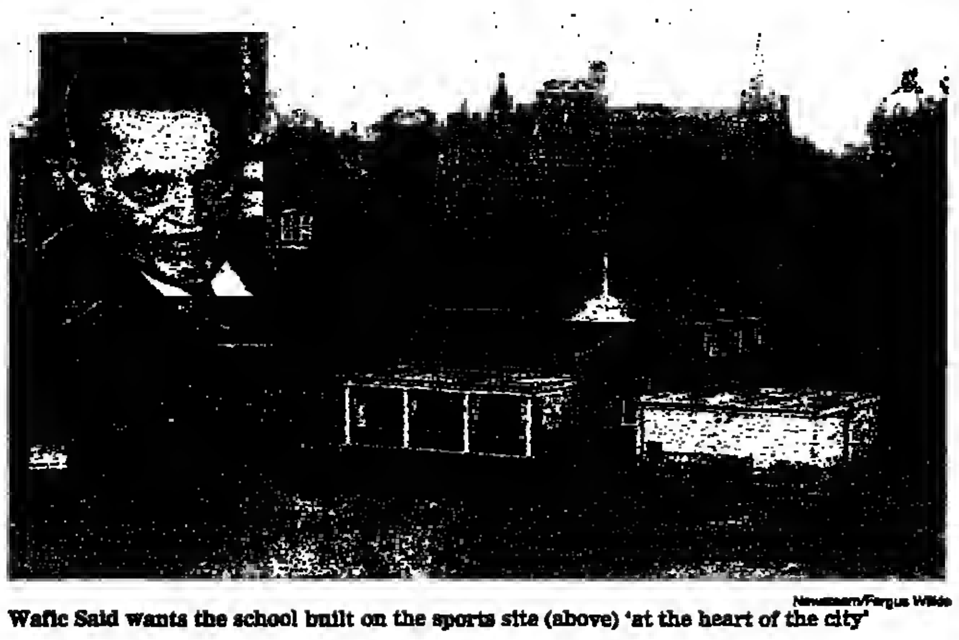
The planning debate is likely to pose substantial obstacles to the university's schedule for the business school. It hopes to open the new building in two years, but is likely to be frustrated by councillors demanding a public inquiry into the plan.

But the university expects to win public support because of the likely economic impact of the school. The private sector has already pledged £10m alongside Mr Said's donation.

Dr Paul Flather, director of external relations, said: "All the evidence from every major business school in North America and Europe is that they bring substantial economic benefits to the region."

Within the university, some have criticised Mr Said's donation itself because of his role as an agent for British Aerospace in the Anglo-Saudi Al-Yamamah oil-for-arms deal.

But more emotive has been the possible loss of the sports facilities. Dr Ralph Highnam, who has co-ordinated opposition among university staff, said: "Surveys have shown that practically everybody feels marginalised and excluded by the university. Removing what few facilities we have is not the best way to acknowledge us."



Newsteam/Fergus White

Wafic Said wants the school built on the sports site (above) 'at the heart of the city'

Big utility scraps $57m system

By Simon Holberton in London

A £35m ($57m) IBM-designed computer system has been scrapped by Hyder, the multi-utility that owns Welsh Water and Swalec, an electricity supply company in south Wales.

The system was intended to provide Swalec with a high-tech platform from which to compete for electricity customers under the new competitive regime in 1998.

Instead, the company will develop the system it inherited from Welsh Water, a former state company.

The IBM system is known as Croeso, Welsh for "welcome". But it has failed to meet timescales and costs limits. The problems with it underline the difficulties regional electricity companies face as they attempt to replace often antiquated computer systems.

In April the electricity companies will be able to compete for household customers. Currently they are restricted to their franchise area.

All companies are spending large sums to build customer service and information systems to enable them to compete with each other.

Hyder's partner in the project, South West Electricity (SWEB), yesterday said it was reviewing its involvement. Mr Derek Lickorish, SWEB executive responsible for customer service, said the company would make a decision quickly. "As with any major IT project it is immensely complicated," he said.

SWEB decided some months ago that Croeso would not be ready by 1998 and that the system it inherited at privatisation would have to remain in use for most of that year.

Hyder is understood to have baulked at the costs of implementing Croeso, especially an annual maintenance charge in excess of £10m. It believes it can build on to Welsh Water's existing system modules for handling gas and electricity customers in competitive markets.

Electricity companies have yet to reach agreement with Offer, the industry regulator, about how much of the expense they incur in preparing for 1998 can be passed on to consumers.

So far Offer has indicated that the UK's 14 public electricity suppliers can recover £153.5m over the first five years of the competitive market.

Additionally, a £50m investment in new technology by the Electricity Pool - the wholesale market which sets electricity prices - can also be covered.

UK NEWS DIGEST

$41m boost for agency funds

Government funding of the Welsh Development Agency is to increase this year by £25.4m ($41.4m) largely because of the cost of winning the £1.7bn inward investment project by LG of South Korea.

LG is to create 6,100 jobs with an electronics plant and a semiconductor facility at Newport in south Wales. Mr William Hague, the chief minister for Wales, said in the House of Commons yesterday that £20m of the increased funding was specifically for the LG project.

The Korean company is being providing with o serviced 100ha site by the WDA and the £20m will be largely spent on infrastructure. The total amount of government aid promised to LG has not been disclosed, but it has been unofficially estimated that it could eventually be as much as £200m.

Until yesterday's announcement, the government was contributing £40m to the WDA's basic budget this year of £120m. The increased grant, plus additional agency receipts of £11.7m, will now lift the budget to £157.1m.

There had been fears that the budget, under pressure since cuts in grant imposed by Mr Hague's predecessor, Mr John Redwood, was being further stretched by the LG project. The main opposition Labour Party said last night that the agency's budget was only being restored to pre-Redwood levels. *Roland Adburgham, Cardiff*

■ RAIL PRIVATISATION

Car parts group is bidder

Unipart, the automotive parts distributor and manufacturer, and three development capital groups are understood to be bidding for Railpart, the nationalised supplier of train spares.

If Unipart is successful, this would broaden the scope of its business which is currently concentrated in supplying the motor industry and in handling distribution for Hewlett-Packard, the computer manufacturer. It would also allow cost savings on distribution depots and networks.

Railpart was put up for sale last March and a deal is expected to be concluded by the end of the year. The company made a profit of just over £9m ($14.7m) on turnover of £215m last year. The development capital bidders are understood to be Apax Partners, Baring Venture Partners and Phildrew Ventures. Unipart was acquired by its management from the British Leyland motor group in 1987. It made pre-tax profits of £31.5m on turnover of £864m last year.

● ABB Daimler-Benz (Adtranz) has won o £12m ($19.5m) order to modernise 64 three-car electric trains in Britain over three years. The work will be done for Eversholt Leasing, one of three leasing companies set up under privatisation of the national network. *Charles Batchelor*

■ FARMING RESEARCH

Government unit to be sold

Most of Adas, the government's farming research and consultancy agency, is to be offered for sala immediately. Mr Douglas Hogg, agriculture minister, said yesterday. The agency research and development business had a turnover of £50m ($81.5m) this year. "We will invite expressions of interest for the business as a whole or any or all of its constituent parts – consultancy, R&D and the laboratory – although our preference is to dispose of the business as a whole," Mr Hogg said. *George Parker*

■ FILM INDUSTRY

Deadline set for franchise bids

The Arts Council has set a deadline of February 28 for applications for its four film franchises being funded with the help of the National Lottery. Prospective bidders for the franchises, each of which will be entitled to up to £39m ($63.6m) of lottery funds over six years, must declare their intention to bid by December 16, and submit final applications by the eod of February. Bidders must operate in England, but need not be British-owned. The Arts Council, which hopes to choose the successful applicants in May, sees the franchises as an opportunity to strengthen the structure of the volatile UK film industry, now enjoying a revival with commercial successes such as *Trainspotting* and *Secrets & Lies*. *Alice Rawsthorn*

■ ECONOMY

Spending seen to strengthen

The amount of cash circulating in the economy grew unexpectedly sharply last month, suggesting that spending in shops has probably rebounded after September's weak performance.

Expectations of another rate increase ahead of the general election continued to mount in the financial futures market. The pound was little changed for most of the day, but leapt higher in late trading to close at an 32-month high against a basket of other currencies.

The narrow money supply measure M0 – cash plus banks' balances at the Bank of England – rose by an unexpectedly strong 0.7 per cent last month, after adjusting for normal seasonal patterns. This lifted the annual rate of increase from 7 to 7.5 per cent, further above the 4 per cent ceiling of the Treasury's "monitoring range".

The monthly growth rate of cash in circulation was stable at 0.4 per cent. The Department of the Environment reported yesterday that the number of new houses started in the third quarter of the year totalled 47,100, up 16 per cent on the previous quarter.

Robert Chote

Andrew Baxter looks at developments in Europe and the US to contain unpleasant emissions from petrol tanks

An attack of the vapours

If you fill up your car on a hot day at a petrol station in the UK, France or several other European countries, you are likely to see a hazy mist around the tank inlet. It is petrol vapour from the empty tank escaping into the atmosphere.

It happens on cold days as well, although the effect is then more noticeable to the nose than the eyes. Drive across to Germany, or Austria, however, and there will be little or no haze or smell, whatever the weather.

These countries are among eight in the European Union which have legislated, or announced legislation, requiring equipment to be installed at filling stations to recover the vapour from the car's tank and send it back to the tanks under the forecourt. Switzerland, some eastern European countries and several US states and cities have similar rules.

The legislation, which began at local level in cities such as Gothenburg and Munich, has been introduced because petrol vapour contains small quantities of volatile organic compounds (VOCs) which can contribute to low-level ozone formation. Also, up to 2 per cent of the vapour is benzene, which is widely accepted as a carcinogenic. Ironically, benzene levels can be slightly higher in unleaded petrol than in leaded grades.

Potentially, say emission equipment suppliers, there is a health risk from these emissions – if not for customers then at least for forecourt staff at operator-attended sites who might be exposed to the vapour throughout the day. The questions dividing the oil and motor industries, pump and dispenser equipment suppliers and environment authorities are what, if anything, should be done about this – and how.

There are opportunities for vapour to escape throughout the distribution chain, but many of the leaks are being plugged. When underground forecourt tanks are being filled, for example, the flow of new petrol displaces an equivalent volume of vapour left over from the old consignment. In the past, that would have been released to the atmosphere through the storage tank vent pipe. Now, under legislation being phased in across the EU by next year, the displaced vapour has to be routed back into the top of the tanker and taken away to be processed back into petrol.

The controversy focuses on the final link in the chain, known as Stage II, when the car is being refuelled. "It's a real problem that affects every motorist," says Nicholas Hobson, general manager of Fenner Fluid Power, the UK vacuum pump producer. "Every time you expose the petrol tank to the atmosphere, you release the vapour."

But the oil industry says customers at filling stations are only exposed to the vapour for a few minutes at a time. "Given the amount of vapour the motorist is exposed to, it is an extremely low-risk situation," says Martin Marriott, gasoline product manager at Shell International Petroleum. It is still a reasonable risk for employees at operator-assisted filling stations, he says.

Across the EU, VOC emissions from vehicle refuelling are estimated at about 250,000 tonnes a year, about 2 per cent of the 12m tonnes emitted annually from all sources. The percentage could double by 2005 as curbs on more important emissions, notably car exhausts, take effect.

But recovery of filling station vapour is likely to fall short of 250,000 tonnes a year. According to the latest version of a draft EU directive on controlling Stage II emissions, produced in 1994 but never published, smaller filling stations selling less than 2.5m litres a year would be exempt. In contrast, the Commission's controversial "Auto Oil" proposals, unveiled in June, aim to cut emissions by 1m tonnes a year by 2010, through cleaner fuels and tighter curbs on vehicle emissions.

Apart from dispenser-based vapour recovery systems, there is a different approach: onboard vehicle recovery. This involves putting a large activated carbon canister in the fuel tank to soak up the old vapour when the tank is refuelled. The vapour is recycled via the engine.

Both systems have advantages and drawbacks. The dispenser-based approach can bring quicker benefits, as larger stations and areas with poor air quality can be targeted, and the equipment works on any vehicle. The onboard system can be fitted to new cars only, so the benefits would take longer to emerge. Ultimately, though, more vapour would be recovered.

Neither system is perfect. The oil industry complains that dispenser-based systems are expensive – Shell says installing the equipment can cost £25,000 a station – and requires too much recalibration, although equipment suppliers say they are tackling the problems.

The motor industry, meanwhile, says the onboard system presents considerable design, safety and cost challenges, particularly in smaller European cars – although these claims are disputed. Estimates for the costs of such e system range from $10 to $100 a car.

These uncertainties, and the lobbying power of sparring partners such as the oil and motor industries, explain the patchy state of legislation on Stage II vapour recovery. It is not known when, if, or in what form the EU draft directive will be enacted. And while some EU member stetes are toughening existing legislation, others are waiting for an EU directive before acting.

In the UK, most petrol retailers are also waiting for legislation. Shell and others, when refurbishing stations or building new ones, are putting in all the pipework for vapour recovery, without installing the system itself. That would enable them to retrofit the equipment relatively inexpensively if legislation were introduced. Among big name retailers, it is understood that only J. Sainsbury, the UK retailer, has gone further.

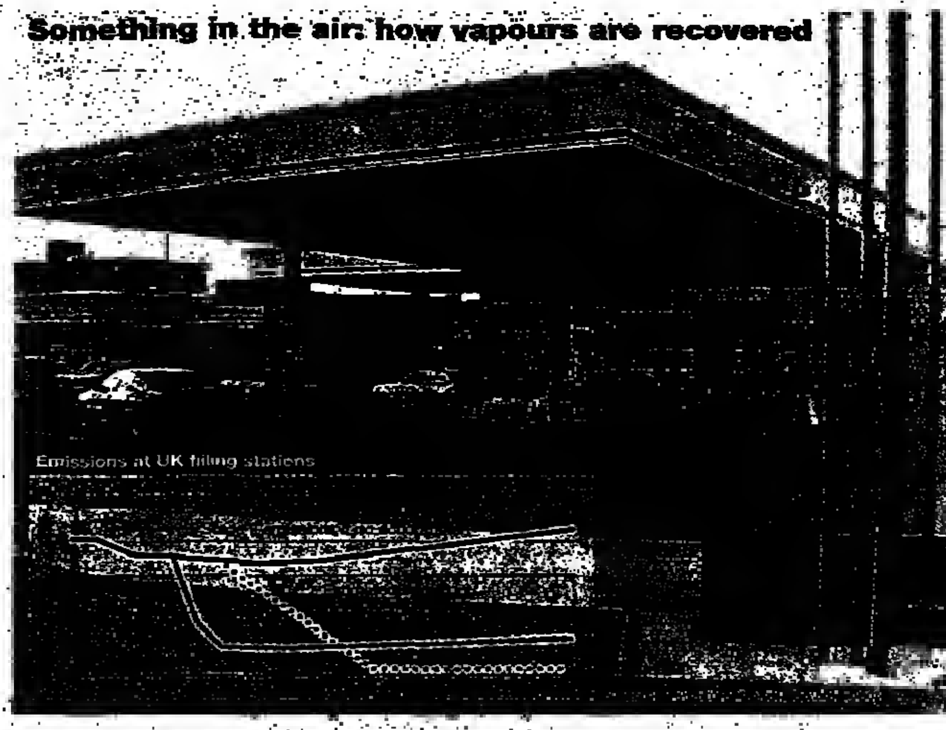
Meanwhile, results are expected shortly from a Department of Environment pilot study this summer to assess the exposure of the population to benzene from petrol stations. This looked at how well Stage Ib (refuelling the filling station tanks) and Stage II vapour recovery aystems performed.

In the US, where the earliest Stage II systems were introduced in California, a controversial battle in the late 1980s between the oil and motor industries ended in compromise. Under the 1990 Clean Air Act, cities with the worst air pollution had to phase in dispenser-based systems, but carmakers will have to fit the large onboard canisters from the 1998 model year.

Once most cars have the canisters, the dispenser-based systems can be removed. The arrangement makes a lot of sense, says Don Zinger, a senior Environmental Protection Agency official: the dispenser-based systems reduce pollution quicker, but enforcement of the regulations is harder.

Whichever way the legislation goes in Europe, however, one question will remain for oil companies, garage owners, motorists and tax authorities to chew over: "Who owns the vapour, anyway?"

Something in the air: how vapours are recovered



Smelling is believing

J.Sainsbury, the UK supermarket group, has installed Stage II vapour recovery systems at 35 of its 180 petrol stations, and for anyone used to petrol vapours, the difference is very noticeable, says Alison Austin, environmental manager.

Sainsbury's decision has ruffled feathers in the oil industry, as many companies believe it merely draws attention to a problem which has been exaggerated. But, says Austin, "Our view is that, given this is a problem that faces everybody, if you can do something about it, then you should."

The group's decision stems from a review two years ago of all aspects of its activities and their impact on air quality. Fitting the equipment which captures vapours released when the storage tanks are refuelled was completed in March, 18 months ahead of the legal requirement.

The Stage II equipment, fitted to the pumps used by customers, is being installed at all new sites and those that are undergoing big refurbishments, says Austin.

Tests showed the equipment had a 'very positive' impact on reducing emissions of volatile organic compounds. Measurement at a filling station in Kimberley, Nottingham, showed a 40 per cent reduction in emissions at the pumps, with reductions also measurable 50 metres away.

Recovery systems up in the air

Although dispenser-based vapour recovery systems have come a long way in the past decade, further improvements are planned by equipment suppliers to meet legislators' and customers' demands for greater accuracy.

The earliest passive systems relied on back pressure – as the petrol entered the tank, the vapour would be pushed back down a coaxial hose to the underground tank. This required a seal between the dispenser nozzle and the fill neck on the car, but the systems were difficult for people to use because they had to compress the seal. They were also relatively inefficient, typically recovering only 75 per cent of the vapour.

Then came assisted balance systems, which incorporated a jet pump or blower to help recover the vapour. These worked better than passive systems, but were unpredictable. There was a risk of air being pumped back with the vapour, exacerbating the problem underground. They were relatively inexpensive for new petrol stations but difficult to retrofit.

In response to the disadvantages of the earlier systems, "active" systems were introduced in the early 1990s. They use a small vacuum pump, normally fitted in the dispenser, which creates a low vacuum to suck the vapour from the car's filler pipe.

A control system ensures vapour recovery closely matches fuel delivered. "It is important to make sure you suck as hard as you blow," says Simon Usher, engineering manager at Fenner Fluid Power, which makes vacuum pumps. No seal is needed and the systems are relatively cost-effective to retrofit, says the UK company.

Fenner is one of the few UK equipment suppliers making components for vapour recovery systems. In Europe, most of the suppliers of the nozzles, hoses, control valves and microelectronics are German, such as Elaflex, Europe's biggest nozzle producer.

The main technical challenge for Fenner was to design a pump strong enough to withstand a fast-moving slug of liquid petrol, which can be sucked down the vapour recovery hose when the tank nears filling. This was solved in 1992 by using a one-part rotor in the pump.

Since then, production of the vacuum pumps at Fenner's Romford factory has risen to 1,000 units a month. Fenner says it is the only manufacturer with a pump certified for use on two nozzles at once.

The next steps for equipment suppliers will be to reduce the need for regular maintenance and recalibration of the systems, and work out a way to achieve nearly complete vapour recovery using one pump in a dispenser with six or eight nozzles.

At present this is hard enough to achieve when the pump is serving two nozzles. The industry is developing a closed loop control system using a flow sensor to monitor the flow of recovered vapour and adjust valves accordingly. This could open the way to highly accurate, multi-nozzle/single pump systems that can monitor themselves, sharply reducing the need for recalibration and routine maintenance.

AB

Paul Nash is one of the most particular and intriguing of British artists of tha 20th century and, in his way, ona of the most significant. Although by the time he died in 1946, at the comparatively early age of 57, he was as famous – or at least notorious – as it is possible for a modern artist to be in England, today his work deserves to be more celebrated than it is. Had we the confidence in our visual artists that the French or the Americans have in theirs, his would have grown into and remained a properly international reputation.

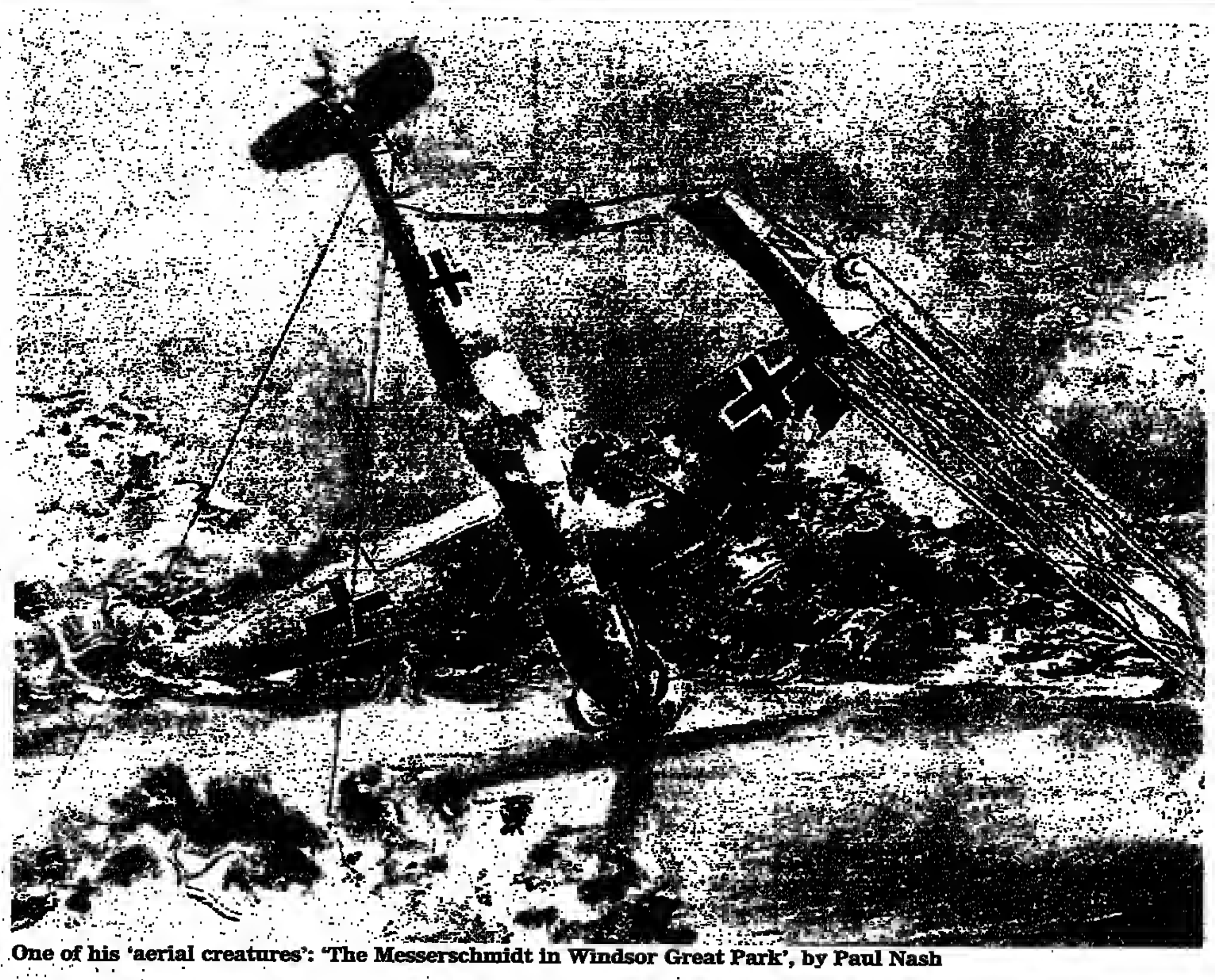
Active before the first world war, he was in touch with Wyndham Lewis's Vorticists and flirted with the Bloomsburys. He served in the trenches and was one of the first of the young war artists. But whereas, after the war, his peers – Nevinson, Wadsworth, Bomberg, Lewis himself – seemed in some degree to recede from their modernist engagement, bis own commitment, both formal and conceptual, remained as strong as ever. And through the two decades between the wars, he brought together and reconciled, as no other artist of his time, the several principal strands of modernism in painting – cubism, symbolism and surrealism.

In 1939 Nash was among the first to be recommissioned by the War Artists Advisory Committee, and the four large canvases he subsequently produced under the aegis of the Air and Information Ministries form the core of the exhibition now at the Imperial War Museum. But impressive as they are, they are not the whole story. The point the show makes so effectively is that, far from being an opportunistic reaction to a new circumstance, they sprang from and were the natural continuation of a body of work begun rather more than 20 years before.

That point is made immediately by the hanging side hy side of the very first of the new war paintings, "Totes Meer" (1940-41), and the "Winter Sea" (1925-37). The one is e dense jumble of broken German aircraft, that Nash had seen at a dump near Cowley, rising and falling beneath the pale moon like breakers on the shore, the other a cooler image, more formally contrived, yet no less fraught with foreboding and despair. The desolate, heaving morass of no-man's land in his "The Menin Road" (1919), on show in the gallery next door, reinforces even more the sense now of a return to a long-cherished theme.

The third painting in the sequence, the "Defence of Albion" (1942), more overtly allegorical, again has sea and shore and a darkling sky but also a huge white Sunderland Flying Boat as its central and commanding image, as it were e latter-day unicorn defending the realm. Faintly comical in its inadvertent bathos, it is the least successful of the four but, leaving that aside, it again relates directly to earlier work, in particular his symbolic landscapes of the 1930s, with their suns and moons, their monumental cubes, monoliths and fallen trees, like dragons in the fields.

The connection is also evident in the many studies of aircraft in the show, a connection Nash himself makes clear. "At the last, there comes among my aerial creatures, perhaps the strangest of them all . . . No fish, not a bird, not quite a reptile, not wholly an insect . . . (The Hampden Bomber) is plainly some sort of pterodactyl . . . it is a creature of the skies . . . Presently the mcon rises, and there goes the flying lizard, gliding across the cloud's edge, its pale eyes flickering in the lunar rays . . ."



One of his 'aerial creatures': 'The Messerschmidt in Windsor Great Park', by Paul Nash

Wartime surrealism

Paul Nash deserves a greater reputation, argues **William Packer**

The other two major paintings make a pair, "The Bettle of Britain" (1941) with its tangle of vapour trails soaring above a schematic estuary, and the "Battle of Germany" (1944), again a high, almost cosmic, near abstract image with its great pillar of smoke, black and red, that billows above a grey sea and ochre patchwork continent beneath a bleak, pale moon. And again with these two the working context is made plain, not just in the satirical anti-Fuhrer collages, and the bombing raids against the enemy, all clouds and searchlight-shafts and the smoke of bomhs and anti-aircraft shells, hut in images that are rather more lyrical and detached.

A "Cumulus Head" (1944), heevy and red with thunder, piles high into the sky. The heaving mass becomes a flower, "The Flight of the Magnolia" (1944), that now fills the sky above the sea. Now it is a dark brown ball with a corona of petals, "The Eclipse of the Sunflower" (1945), of which the giant head lies dead in tha field below, like another monster "Bomber in tha corn" (1940). It all comes together.

Nash was never the most fluent or natural of artists. His drawing is often uncertain, his painting always more deliberate than assured. But the substance is there, a consistent achievement of which this work of the second world war is the culmination. Had he lived, the story would surely have gone on: as it was, the next generation of Becon, Sutherland and Mcore rather stole his thunder. But they could not have followed where they did, had he not led. We are well reminded of his true quality.

Paul Nash – *Aerial Creatures*: Imperial War Museum, Lambeth Road SE1, until January 26, then on to Oriel Mostyn, Llandudno.

Opera in New York/**William Weaver**

Britten arrives from upstate

When the current season of the New York City Opera wes announced earlier thie year, the programme included the local premiere of Britten's *Glorioma*, a work unknown to the American opera-going audience. The repertory had been determined by the company's artistic director, Christopher Keene, before his untimely death in October 1995; hut then, bowing also to financial considerations, Keene's successor Paul Kellogg felt it necessary to replace *Gloriana* with the more economical *The Turn of the Screw*, which opened last week.

This production aroused considerable curiosity among New Yorkers, not only because *The Turn of the Screw* is almost as unfamiliar as *Gloriana*, but because the staging was borrowed from the upstate Glimmerglass summer opera festival, of which Kellogg has been the moving spirit since 1979. At that time performances were held in a school euditorium and the festival's bndget was a little over $70,000; under Kellogg a new $5m opera house was built, and the budget rose to $3.5m.

Accepting the New York post, Kellogg declared his intention to continue running Glimmerglass (the City Opera does not perform in summer); and he revealed the prospect of fruitful exchanges between the two organisations. And, in fact, this *Turn of the Screw* was the first import to Lincoln Center from upstate.

Hence the curiosity about the Britten opera and about the production, created for e theatre with under 1,000 seats and now presented in the 2,779-seat State Theater. Simply put, the question was: would it work? An important question because, whether it worked or not, it was to be only the first of a series of Glimmerglass-to-New York trips.

It worked. As s matter of fact, despite the very different capacities of Glimmerglass and State Theater, their stages are exactly the same size, so John Conklin's sets seemed in perfect scale, and the staging of Mark Lamos made full use of the space. This production could have been born for it. That is not to say that the work of Lamos and Conklin was altogether satisfactory. It was not so much the gimmicks (Mrs Grose's Jackie-like sunglasses, the ebsence of the Governess's desk and her unsuitable wardrobe), as the lack of a coherent point of view.

Still, with the help of Britten's magical, spooky score, beautifully played by the NYCO orcbestra under Robert Duerr, there was a compelling, haunted mood, and the finale was eppropriately bair-raising. Kellogg assembled a strong cast, some of it also coming from Glimmerglass, headed by the affecting Lauren Flanigan as the Governess, Adam Klein as e honey-voiced Quint, Alexandra Hughes as sober Mrs Grose and the crystalline soprano Christine Abraham as Miss Jessel. Rohin Leigh Massie was an effective, shifty Flora, and Zachary London – though he seemed tco young and not sufficiently ambiguous for Miles – sang sweetly.

While Kellogg at present is, for the most part, carrying out the plans of his predecessor, he has already set his seal on the City Opera, and the prospects for its future are bright.

Concert/**Stephen Pettitt**

Gardiner's light and shade

John Eliot Gardiner has forged some unlikely partnerships. His four-year connection with the North German Radio Symphony Orchestra in Hamburg was e peculiar collision of opposites, the perennial adventurer taking on a cosily established outfit and duly rocking the boat. The fact that ha is often invited back to the Vienna Philharmonic says much for that usually tradition-bound orchestra's eagerness to re-invent itself. And lately he has been conducting another of northern Europe's orchestras with a safe reputation, albeit one of lusher sound and greater refinement than the Hamburgers.

Plainly a special chemistry is at work when Gardiner conducts Amsterdam's Royal Concertgebouw Orchestra, as we heard et the Barbican Hall on Sunday. He played the one trick guaranteed to make any orchestra listen to itself with fresh ears: he changed the seating plan. The violas were placed on the outside and the double basses lined centre stage, behind a single row (not the usual two) of woodwind. The sound from the auditorium seemed firmer, better balanced, than usual, with the violas' singing tone – and what a lovely tone it is – particularly prominent and the solid foundetion provided by the basses evenly distributed.

The music was an appealing mixture of early Romantics, beginning with Weber's Oberon Overture – crisp and clear, with a daring edge to it that hasn't always been a characteristic of the Concertgebouw – and ending with Schubert's Ninth Symphony, a naturally paced, carefully detailed and precise reading, both nobla and human. It showed that when light is allowed into this music its shades seem all the shadier.

Earlier tha players had been warmed to their task by Berlioz's extraordinary scene lyrique, *La mort de Cléopâtre*, the work he wrote in 1829 in the full expectation that it would win for him the coveted Prix de Rome. One can well understand the jury's reluctance. The immediecy of the music's response to Vieillard's text, its bold onomatopoeic gestures (the heartbeat suggested by double basses at the end, for instance, or the shivering discords played by the entire string section on the bridge), its disdain of textbook forms and harmonic processes, must have mede it seem odd indeed.

But it is also brilliantly inventive music, e wonderful vehicle for its mezzo-soprano soloist. Here Anne Sofie von Otter, in glorious voice, did the work ample justice, colouring her line with a flexibility and power that I had not hithertoo heard, even from her.

Donna McKechnie: hoofer with a voice

Tristram Kenton

Stalwart of the nearly-stars

Antony Thorncroft reviews Donna McKechnie

Donna McKechnie is best known for her Tony winning performance in the role of Cassie in the Broadway production of *A Chorus Line*, and her London appearances in missed-hits like *Promises, Promises* and *Company*, known that is by that coterie of fanatics whose lives revolve around the musical theatre.

Fortunately there are enough of them to almost fill the Jermyn Street Theatre, e tiny basement club which is leading the current London revival in musical comedy. With so many big and successful musicals crowding the West End stage it is to be expected, and welcomed, that the performers, and those who did not quite make the final audition, should want somewhere to unwind, to try out new work – and to show off.

Donna McKechnie is a dancer, which is a misfortune on this tiny stage with hardly room to swing a gerbil. She is dressed for exercise class, and points e toe at the appropriate angle before giving us her life story. It is the usual farrago – an unhappy Mid-West childhood and liberation through dance – and song.

It is a pity that she is directed. The tiny bits of business – picking up a scrap of paper from the floor, joshing with the trio of musicians – sit uncomfortably with what should be the free and full confessions of a successful hoofer. You tend to clock off from the detail of a pretty dull life and wait for the next production number.

It is here that McKechnie comes into her own. Old favourites – a Fred Astaire medley (she actually danced with the man in his Californian eyrie) and snatches of Doris Day and Debbie Reynolds – are alternated with some of those rare stagey songs that only true theatricals know and love. Some, like "Turkey Lurkey Time", have never been given a public airing before: all convey the frenzied unreal glamour of life as a dancer.

McKechnie is re-assuringly vain, with some reason: she still has a cheeky, ingénne face; she probably gives a very censored version of her life. But it is pleasant enough to venture behind the Green Room door and join the love-in between all those who were once, nearly, and may still be, stars, and this stalwart survivor of the species.

INTERNATIONAL ARTS GUIDE

ANTWERP

CONCERT
De Singel Tel: 32-3-2483800
● Orchestra and Choir of the Nederlandse Bachvereniging: with conductor Jos van Veldhoven, soprano Barbara Schlick, alto Andreas Scholl, tenor Howard Crook, bass Peter Kooy and organ-player Leo van Doeselaar perform J.S. Bach's Unser Mund sei voll Lachens, BWV110, Vereinigte Zwietracht, BWV207, Geist und Seele wird verwirret, BWV35, and Ich liebe den Höchsten, BWV174; 8pm; Nov 7

■ BALTIMORE

EXHIBITION
Baltimore Museum of Art Tel: 1-410-396-6300
● John McLaughlin: Western Modernism/Eastern Thought: this exhibition features some 25 paintings by the American artist John McLaughlin (1898-1976), spanning the years 1946-1975. Main influences on his work were Japanese and Chinese cultures and the work of Mondrian and Malevich; from Nov 8 to Jan 19

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Berliner Sinfonie-Orchester: with conductor Michael Gielen perform works by Tchaikovsky, Berg and Ravel; 8pm; Nov 7, 8, 9
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Requiem: by Mozart. Conducted by Georg Dieterich, performed by the Camerata Wannsee; 8pm; Nov 6

■ BRUSSELS

DANCE
Théâtre Royal de la Monnaie Tel: 32-2-2291200
● A Propos de Shéhérazade: a choreography by Maurice Béjart to music by Ravel and Rimsky-Korsakov, performed by the Béjart Ballet Lausanne; 8pm; Nov 5, 6, 7, 8, 9

■ COPENHAGEN

OPERA
Det Kongelige Teater Tel: 45-33 69 69 69
● Madame Butterfly: by Puccini. Conducted by Dietfried Bernet, performed by the Royal Danish Opera. Soloists include Nina Pavlovski, Kaludi Kaludow and Karl Hamnoy; 8pm; Nov 7

■ DUBLIN

CONCERT
National Concert Hall - Geoláras Náisiúnta Tel: 353-1-6711888
● Orchestra of St. Cecilia: with conductor Geoffrey Spratt and pianist Hugh Tinney perform Mozart's Piano Concerto No.23 in A, K488 and Piano Concerto No.22 in E flat, K482, and J.S. Bach's Sinfonia in D No.4, Op.18; 8pm; Nov 6

■ FRANKFURT AM MAIN

OPERA
Städtische Bühnen Oper, Ballett, Schauspiel Tel: 49-69-21237444
● Die Lustige Witwe: by Lehár. Conducted by Sylvain Cambreling, performed by the Oper Frankfurt. Soloists include Bodo Schwanbeck, Pia-Maria Nilsson and Patrick Raftery; 7.30pm; Nov 6, 8

■ HELSINKI

OPERA
Opera House Tel: 358-9-403021
● Il Barbiere di Siviglia: by Rossini. Conducted by Kari Tikka and performed by the Finnish Opera. Soloists include Klas Hedlund, Jukka Romu and Riikka Hakola; 7.30pm; Nov 7

■ LAUSANNE

CONCERT
Théâtre de Beaulieu Tel: 41-21-6432211
● Orchestre de la Suisse Romande: with conductor Armin Jordan, soprano Philis Bryn-Julson, contralto Jadwiga Rappé and the Choeurs de Chambre Romand et Pro Arte de Lausanne perform works by Berg and Brahms; 8.30pm; Nov 7

■ MADRID

CONCERT
Fundación Juan March Tel: 34-1-4354240
● Hemera Quartet: with violinist Juan Llinares, viola-player Paul Cortese, cellist Rafael Ramos and pianist Eugenia Gabrieluk, perform Chausson's Trio for Piano, Violin and Cello in G minor, Op.3 and Quartet for Piano and String, Op.30; 7.30pm; Nov 6

DANCE
Teátro Albéniz Tel: 34-1-5219998
● Gelabert-Azzopardi Company: perform Cesc Gelabert's Armand Dust 2 to music by Linton and Sed to music by Krischke and Gelabert; 8.30pm; Nov 7, 8, 9

■ NEW YORK

CONCERT
EXHIBITION
International Center of Photography Tel: 1-212-860-1777
● All Zones Off Peak: Photographs of Liverpool by Tom Wood: for over fifteen years, Wood has photographed the peopla and scenes on his daily bus commute to Wirral College where he is a photography teacher; from Nov 8 to Feb 9

OPERA
New York State Theater Tel: 1-212-875-5570
● Les Contes d'Hoffmann: by Offenbach. Conducted by Robert Duerr, performed by the New York City Opera. Soloists include Olga Makarina, Patricia Johnson and Allan Glassman; 8pm; Nov 7

■ NICE

EXHIBITION
Musée Matisse Tel: 33-93 53 40 53
● Trois oeuvres à l'étude: exhibition focusing on three works by Henri Matisse from the museum's collection: "Le serf" (1900-1903), "Feuteuil rocaille" (1947) and "Le platane" (1952); from Nov 6 to Jan 8

■ PARIS

EXHIBITION
Galerie Nationale du Jeu de Peume Tel: 33-1 47 03 12 50
● Jean-Marc Bustamante: Lent Retour: exhibition featuring a series of photographs and sculptures created by Jean-Marc Bustamante in the period 1988-1996; to Dec 1
Institut Néerlandais Tel: 33-1-53 59 12 40
● Ed van der Elsken, entre films et photos: exhibition devoted to the work of the Dutch photographer and filmer Ed van der Elsken (1925-1990); from Nov 8 to Dec 8

■ SAN FRANCISCO

OPERA
Bill Graham Civic Auditorium Tel: 1-415-861-4008
● Carmen: by Bizet. Conducted by Donald Runnicles, performed by the San Francisco Opera; 7.30pm; Nov 8

■ STOCKHOLM

EXHIBITION
Nationalmuseum Tel: 46-8-6664250
● Retemity: exhibition combining adman Torbjöm Lenskog's private collection of design objects with works by seven young artists reviewing the objects in their own fashion, featuring design objects from 1915 to 1975, including radio sets, vacuum cleaners, typewriters, food processors, lamps, chairs and other objects; from Nov 8 to Mar 2

■ SYDNEY

DANCE
Drame Theatre, Opera Theatre, Playhouse Tel: 61-2-250-7127
● Australian Ballet: perform Stephen Page's Alchemy to music by Page, Stanton Welch's Red Earth and Meryl Tankard's The Deep End; 7.30pm; Nov 6

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Klangforum Wien: with conductor Zsolt Nagy and pianist Marino Formenti perform works by Murail, Kubo and Furrer; 7.30pm; Nov 8

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. **Tel: 31 20 664 6441. E-mail: artbase@pi.net**

WORLD SERVICE

BBC for Europe can ba received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

(Central European Time)

MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Philip Stephens

In a tight spot

Politics demands tax cuts in the Budget but the chancellor has little room to manoeuvre and any reductions will be modest

A week or two before last November's Bndget Kenneth Clarke intended to reduce capital gains tax. The Britisb cbancellor'e plan, which by then had been factored into the Budget arithmetic, was to align the exchequer's charge on capital gains with the 24p basic rate of income tax.

John Major was delighted. For reasons I have yet to fathom, he has made the abolition of capital gains and inheritance taxes a guiding ambition of his premiership. But, just as the chancellor was preparing to make a downpayment on this pledge, a clever Treasury official spoilt it all.

As the story is told in Whitehall, the official applied the "Cedric Brown test" to Mr Clarke's proposal. A few simple sums showed that the abolition of the higher 40p tax rate for capital gains would deliver a handsome windfall to the then chief executive of British Gas. Mr Brown's lucrative share options promised him one-off gains of £300,000. The chancellor would be giving him an extra 16p for every pound.

This was at a time when the so-called fat cats running the country's privatised utilities were big news. Mr Brown had been called the most hated man in Britain. Mr Clarke was advised to think ahead to the headlines on the day after the Budget: "Ken fills Cedric's trough". Onch. Mr Major was apprised of the risk. The plan was dropped.

We know, however, that the prime minister would still like to get rid of the tax. He said so in the Commons only last week. Somewhat to my surprise, Mr Clarke made the same explicit pledge in his speech to the Conservative party conference in October.

In the meantime, to the dismay of another famous Mr Brown (Gordon, the shadow chancellor) Cedric has retired. One assumes he has cashed in his options and paid his dues at the 40p rate. So as he puts the finishing touches to this month's Budget, Mr Clarke might be tempted to revisit capital gains. Somehow, though, I douht it.

The chancellor's favourite mantra is that good politics and good economics are indivisible. Most of the time he means it. Most. If Mr Clarke had known than what he knows now about the precarious state of the nation's puhlic finances, he would not have cut taxes by more than £3hn last November.

Really good economics would demand that he make up for that mistake by, at the very lesst, ruling out any further reductions in this month's Budget. The acceleration in economic growth has made the Treasury's puhlic horrowing forecasts look rather hetter than in its summer forecast. But a deficit of 3 per cent of national income at this point in the economic upturn is too high.

By and large, the chancellor has heen right to dismiss the judgments of official advisers who see the suppression of inflation as the sole objective of economic management. Too many of those officials are still intent on fighting the battles of the late 1980s. But

> The chancellor has been obliged to see off some of the wackier Budget ideas produced by the prime minister's Downing Street policy unit

there is nothing inconsistent in combining a pro-growth strategy with a tighter rein on fiscal policy. As the fortunes of president Bill Clinton remind us, rather the reverse.

But politics, of course, demands some tax cuts. The consensus in his party is that Mr Clarke must make a Budget downpayment if tax is to be the bait which lures disgruntled Tories back into the fold at the election. At issue is how much is offered in advance and how much can be promised for later. The answer to both questions is the same: not much.

Sometimes the chancellor is his own worst enemy. Last year he let expectations run rampant, so a 1p cut in the basic rate of income tax was a disappointment. This year he has been rather naive, acknowledging a determined effort to lower expectations. The result: most people suspect he will spring a generous surprise. I do not.

Last week's quarter-point rise in interest rates was not calculated to provide the springboard for a give-away Budget. When Mr Clarke defied the Bank of England (and his own officials) in June to cut rates by the same amount, his concern had been to push up the economy's growth rate to about 3 per cent. That has happened, so he saw no reason to prolong his coofrontation with the Bank.

Nor has there been any sign yet of the prime minister demanding large tax reductions. The present political paralysis in Whitehall has in effect left Mr Clarke in sole charge of economic policy and Michael Howard, the home secretary, running domestic affairs. The chancellor has been obliged to see off some of the wackier Budget ideas prodnced by Mr Major's Downing Street policy unit. But, more than once, the prime minister has sided with the Treasury rather than with his own advisers.

The puhlic spending negotiations have heen unusually difficult. Mr Clarke has run out of easy savings. Mr Major meanwhile is still more concerned that a funding crisis in the bealth service or in schools could derail his last remaining hopes of political recovery. The cbancellor considers that preserving a decent welfare state and hitting the Conservatives' eventual goal of a 20p basic rate of income tax would be demanding enough even during the lifetime of the next parliament.

That is too optimistic. It will require a miracle for any government to meet the latest spending targets. In any event, I do not expect Mr Clarke to he so brazen as to combine them with a firm, medium-term programme of tax reductions.

Perhaps I am too trusting in Mr Clarke, but this leads me to conclude that any net tax cuts will be on the low side of expectations, perhaps well under £2hn. Of course, he can find eome money elsewhere to pay for lower income taxes. The present tax concessions on profit-related pay are one of several obvious targets.

This hardly leaves room for redneed capital gains tax. As it happens there are economic arguments for and against such a move. It would be a step towards a level playing field in the treatment of savings. It cannot, though, be a priority. And neither chancellor nor prime minister sesm to understand that the same economic arguments demand the retention of inheritance, or some other capital transfer, tax.

Good politics and good economics both argue for any tax cuts to be concentrated on those with the lowest incomes. Should Mr Clarke be tempted otherwise, a gentle warning. There are plenty more Cedric Browns out there.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e.mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Shell already leading player in debate on multinationals' role

From Mr John S. Jennings.

Sir, Anita Roddick's letter (October 31) raises a number of significant issues not only for Shell, but all multinational corporations. At the heart of the matter is the need for a debate about substance rather than public positioning statements. In this debate Shell is already playing a leading role.

Let me first deal with the current situation facing Shell in Nigeria. Shell has been producing oil in Nigeria for more than 40 years but only lately has it been subjected to a sustained campaign of exaggerated criticism to discredit its role there. In particular, the company has been accused of causing major environmental devastation in the Delta region, an accusation which the evidence of international journalists who have toured the region in the last few months indicates is false.

In fact, Shell is committed to a continuing programme of environmental and social investments. For the past five years the company has been spending on average in excess of $100m a year on environmental improvements. And as long as Shell has been producing oil, it has been investing in the region's social infrastructure, currently spending more than $20m a year on agricultural assistance, schools, hospitals and so on.

This week marks the anniversary of the execution of Ken Saro-Wiwa. Shell did all in its power to secure clemency for him although in the end the company does not have the mandate or moral right to interfere with the due process of law in Nigeria or anywhere else. In the case of the Ogoni 19, what Shell has done clearly and unambiguously is to call for humane treatment, speedy justice and a trial that is not only fair, but seen to be fair; with early release for the innocent and a measure of clemency for the guilty.

The greatest need in Ogoni now is for a healing of wounds, for the community to come together in good faith. We know that businesses like Shell must play their part and we are meeting and listening to all sectors of the Ogoni leadership. It is early, but there are signs of a broad-based move towards reconciliation, and that must be a prerequisite if peace and economic stability are to be restored. Meanwhile, Shell's social investment in Ogoni continues; the company has just announced it is to sponsor a hospital as well as to renovate and re-equip three other health centres.

The letter goes on to question if "things are changing at Shell". Yes, I can tell you they are. Shell has already undergone a major structural reorganisation to help it build on the commercial success of the past. Shell has also just completed an important global exercise in listening to people from both inside and outside the company; 14 round-table conferences with more than 300 people from 53 countries engaged in a dialogue about society's changing expectations of multinationals. This is not a PR exercise but rather a transparent attempt to find out what people really want from all big corporations, not just Shell.

I am not pretending it is easy to satisfy the often conflicting expectations which people have of major companies; in fact it must not be left solely to the multinationals to square this particular circle. Rather, a central plank in the dialogue in which Shell is involved is for everyone concerned with the role of such companies to participate in finding a way to a resolution.

Anita Roddick asks if Shell is ready to join this debate; we are already in it.

John Jennings,
chairman,
Shell Transport and Trading Company,
Shell Centre,
London SE1 7NA, UK

Crucial vote for management school

From Sir Bruce MacPhail.

Sir, Today Oxford University votes on whether to allocate a site in the centre of the city for the construction of a new Business School. The proposed building will be an impressive addition to Oxford's architecture.

In 1990, Congregation approved the institution of a sub-faculty of management studies. The campaign for Oxford set a target of £40m and Wafic Said's generous benefaction of £20m will give the school a huilding to match the best in the world – provided a suitable site is found close to the centre of the university. This stipulation is not out of vanity but because Oxford aims for a model of management edncation which is integrated with other relevant faculties – unlike institutions such as Harvard, London or Insead.

Oxford aims to establish a centre of management excellence which will attract high calihre students from across the world as potential husiness leaders of the next generation. It is to be hoped that as Oxford, and even Cambridge, wholeheartedly develop their business schools, more of our brightest students will perceive a career in business as a respectable intellectual challenge, and therehy increase the quality of our nstional management resource.

To lose a greenfield site from the centre of Oxford is no small thing. However, this site was only selected after an exhaustive searcb revealed nothing else suitable. Thus, Congregation must balance the regrettable loss of an open space with the disastrous effect a negative vote would have on the excellent prospects for management studies and on the attitude of other possible university henefactors.

I shall go to Congregation today and urge other members to do the same, so the university can show wholehearted support for management studies.

Bruce MacPhail,
chairman of the council,
School of Management Studies,
University of Oxford, UK

Lithuania policies will not aid stability

From Prof Steve H. Hanke.

Sir, Prof Val Samonis concludes (Letters, November 1) that the recent victory of the "non-communists" in Lithuania bodes well for that country's economy and investment prospects. Alas, his assessment is unfounded because it is based on two false assertions.

Prof Samonis claims that the "non-communist" parties have a history of fiscal prudence. This is inaccurate. Indeed, these parties have had a history of proposing fiscally irresponsible schemes. For example, their most ludicrous proposal would have retroactively indexed savings accounts. This would have required a 100-fold increase in the value of these accounts and would have forced Lithuania into bankruptcy. Fortunately this nutty idea was defeated in an August 1994 referendum.

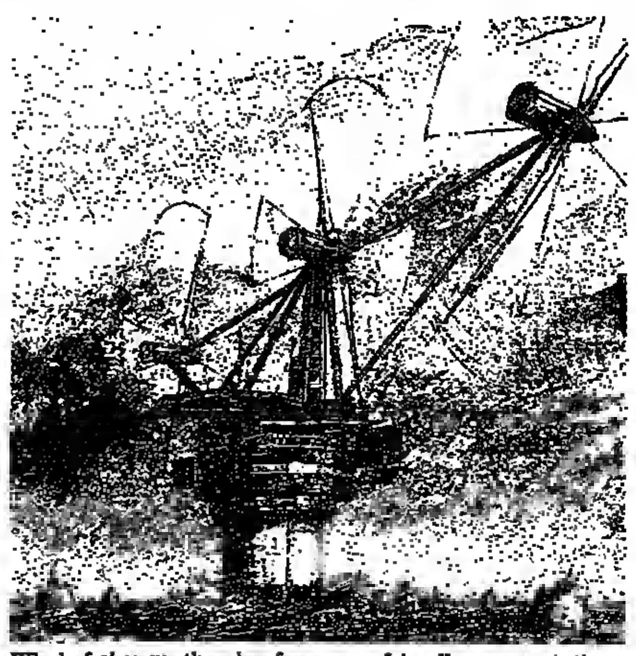
Prof Samonis also asserts that the battle against inflation can best be won by abandoning Lithuania's currency board-like system and replacing it with a classical central bank, armed with discretionary monetary policies. This echoes the "non-communists" bizarre siren song.

As a former Lithuania state counsellor, I can attest to the fact that the primary motivation behind the "ex-communists'" introduction of the currency board-like system on April 1 1994 was to establish stability by putting a stop to the monetary and fiscal shenanigans that threatened Lithuania. And, according to the International Monetary Fund, the system has done just that. Contrary to Prof Samonis's assertion, the embrace of discretionary monetary policies will not promote stability. In every country that has abandoned a currency board in favour of a central bank, instability has followed.

Steve H. Hanke,
professor of applied economics,
The Johns Hopkins University,
Baltimore,
Maryland 21218-2686, US

Robert Corzine on the innovative proposals for Brent Spar

A platform for ideas



Wind of change: the plan for an eco-friendly power station

Brent Spar, the obsolete oil storage platform at the centre of last year's bitter tug of war between Shell and Greenpeace, has become an icon for the international environmental movement. It has also become a bit of a cottage industry.

On Friday a diverse group, representing a range of interests from academia to professional oil industry bodies and consumer and environmental groups, met in London to debate the latest proposals to dispose of the Brent Spar.

The meeting was organised by the Anglo-Dutch oil group and the Environment Council, an independent charity. Shell says the "balanced group of participants" helped it "gain insights into many views and values" surrounding the controversy over the platform.

In the 15 months since the company dropped its controversial plan to dump the Brent Spar in the deep water of the Atlantic Ocean, the platform has been moved to a sheltered Norwegian fjord far from the limelight. But an extensive public relations and consultation campaign by Shell in the UK and the rest of Europe has kept the issue of the Brent Spar and its future in front of the public.

The company unveiled 30 different disposal schemes put forward by 19 leading European offshore contractors and consortia during the summer. It hopes to complete a shortlist of six new disposal options by the turn of the year.

Many of the proposals were variations on a theme of cutting up the Spar and disposing of the sections onshore, either by recycling the steel or by placing it in a landfill site. Such solutions were in line with Greenpeace's demand that all North Sea structures, with just a few exceptions, be removed entirely and taken ashore for disposal.

But a number of proposals were more innovative. Several suggested a dismantled and cleaned-up Spar would be suitable raw material for building an artificial reef or causeway. Others envisaged refurbishment and a new life for the structure.

One proposal was to turn Brent Spar into an "eco-friendly" floating power station off Scotland. A Dutch consortium said the top portion could be equipped with three 3MW windmills, with additional wave power units surrounding the platform.

Thyssen, the German engineering group, believes it could serve as a wind-powered desalination plant to produce fresh water. Other contractors put forward plans to use it as a training or forward base for the offshore industry.

The range of innovative options has impressed the UK government, which had approved the deep-sea dumping scheme and was surprised and angered when Shell backed down. "Perhaps Greenpeace was right when they said that Shell hadn't examined all of the possibilities," says one official.

Shell's apparent determination to look at all possible options for the Brent Spar has even impressed some Greenpeace campaigners, including those from Germany, where protests last year turned violent.

But there is some scepticism inside Shell about the extent to which last year's lessons have been heeded. Some staff in continental Europe believe there is support among UK counterparts for sticking to the original deep sea disposal plan.

Officials in London admit there has been "massive debate" inside the British company over the Brent Spar. But they deny that any "recalcitrants" in their ranks pose a problem.

"There is no fifth column operating inside the company trying to undermine what we are trying to achieve," says Mr Alan Goldsmith, a senior executive at Shell UK.

The corporate debate about the Brent Spar also extends beyond Britain. Last month Mr Cor Herkströter, Shell's Dutch chairman, acknowledged the company's past shortcomings when he admitted in a speech to a "failure to provide adequate information for an informed public debate".

Will the rest of the oil industry follow Shell in adopting what Mr Herkströter described as an "open and honest approach, a willingness to discuss and communicate"?

Some oil company executives, such as Mr Rodney Chase, the head of the exploration division of British Petroleum, have made no secret of their sympathy with environmental causes. They believe the industry will suffer further damage if it ignores them.

But a survey due to be published by the energy industry consultancy wing of Ernst & Young, the accountancy firm, suggests mixed feelings among oil companies over platform decommissioning.

Two in five of the industry executives thought the environmental lobby had brought "a greater degree of uncertainty" into plans to abandon offshore installations. One in five said the environmental lobby would "have a substantial impact" on their plans. One reason is undoubtedly the cost: decommissioning is expected to cost the UK offshore industry some £8.7bn over the next 25 years to 30 years.

However, Mr Steve Robinson, head of the Environment Council, which mediates in environmental disputes, says he was very encouraged by the outcome of the seminar. "This is a complex issue, but a lot of good work was done on deepening understanding and opening discussion on fundamental principles."

Additional reporting by Leyla Boulton

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Tuesday November 5 1996

Second term, warts and all

Despite a last-minute narrowing of his opinion poll lead, it is still probable that by tomorrow Mr Bill Clinton will be the fifth and last American this century to have won two presidential elections. Does he belong in the company of Roosevelt, Eisenhower and Reagan, who served out their second terms and have entered the pantheon of "great" presidents? Or will he be seen as another Nixon, whose triumphant re-election turned into the ignominy of Watergate?

At present he looks closer to the latter. Or rather, his stature looks much less than Nixon's did at the time of his landslide victory over George McGovern in November 1972. Though he has notched up some creditable achievements, Mr Clinton's first term has hardly been marked by great foreign policy breakthroughs like Nixon's visit to China or the ABM and Salt negotiations with Moscow. Indeed, probably the strongest motive America's allies have for desiring his re-election is their reluctance to repeat, with a new administration, the painfully slow learning process that characterised his first 18 months.

If Mr Clinton resembles Nixon in anything, it is in his vulnerability to scandal. Whitewater, "travelgate", the death of Vincent Foster, the White House's request for FBI files on prominent Republicans, the campaign contributions from Asian businessmen: any or all of these affairs – though in none of them has any presidential guilt been proved – could yet rebound to undermine his second term, especially if he continues to face a Congress controlled by his opponents.

Perhaps, having already survived so much investigation and innuendo, he will be able to break free of the allegations. But to put such concerns convincingly behind him he must in future respond more openly to investigation, and undertake not to thwart the course of justice by presidential pardons.

Economic cycle

If he does win today, Mr Clinton's victory will not be all his own. Few incumbents have been so blessed by the vagaries of the economic cycle, or those of their opponents' campaigns. Mr Alan Greenspan, the chairman of the Federal Reserve, has skilfully piloted the economy to a sixth year of recovery. Output, employment and stock values are well up on their 1992 levels, even if the incomes of most households are not. Most of the middle-income families on whose behalf candidate Clinton campaigned probably do feel better off now than they did four years ago.

Senator Bob Dole was clearly off-target with his claims that the economy was "barely afloat". Even less suited to the campaign trail than early doubters had suggested, he has been ill-placed to reunite a deeply divided and troubled party. That is a pity. There is much in Mr Dole's character and record to recommend him, and it is sad that he should have betrayed that record (as the public clearly sensed) by offering a demagogic tax cut which the country cannot afford.

Mr Clinton, by contrast, having learnt his lesson with the failure of his healthcare package in 1994, has benefited from the slow disintegration of the Republicans' "Contract with America" through 1995-96. But some fear that once re-elected, and especially if his party regains control of Congress, he will ignore or forget this message and "go back to his bad old ways", with a renewed search for Big Government solutions. Even some who support his re-election hope that Congress will stay Republican to keep these instincts in check.

Senate majority

Such dangers should not be overstated. Even if the Democrats regain control of the House, few believe that Mr Clinton's coat-tails will be long enough to win them a majority in the Senate. Even if they were, history hardly suggests that such a result would open the floodgates to a tide of ultra-liberal legislation. In 1993-94 a Democratic Congress responded to Mr Clinton's leadership by passing a bill to reduce the budget deficit (without a single vote from Republicans), but inflicted the death of a thousand cuts on Mr Clinton's healthcare bill.

The US Constitution was written precisely to ensure that sweeping reforms, in either direction, require more than a mere majority in Congress. They need to be sustained by a deep and broad current of public opinion. Neither Mr Clinton nor Mr Newt Gingrich, leader of the 1994 "Republican revolution" has been able to demonstrate the existence of such a current in the 1990s. The American people are not in a mood for new bold experiments along the lines of the New Deal or Lyndon Johnson's "great society". Nor, however, do they wish to see these past achievements dramatically dismantled.

Mr Clinton seems ready to apply this lesson during his next four years whether or not his congressional colleagues (many of whom he has already deeply alienated) decide to go along. Indeed the danger is that he will do too little rather than too much. This summer he cynically sacrificed the welfare benefits of poor families in order to avoid a battle with the Republican Congress. But he has been equally unwilling to confront the sacred cows of his own party by admitting that both social security and Medicare are in need of radical reform. The same applies to education and campaign finance.

The voters are contradictory in demanding a response to these pressing issues, while also, it seems, wishing to see things remain as they are. Mr Clinton reflects these contradictions but can sometimes push the debate in the right direction. That is the best justification for his re-election.

Big Five adjust the volume

After years of growth, the record industry is beset by static sales and falling prices, writes **Alice Rawsthorn**

This is a great time to buy records in the US. Music shops are plastered with bargain stickers, and discount stores are selling popular albums for as little as $8.99 (£5.50).

Good news for consumers, but not for the music industry. After several years of double-digit growth, it faces static sales worldwide in 1996. PolyGram, one of the world's largest record companies, recently issued a profits warning and announced 400 job losses. Warner Music, its arch-rival, is also shedding staff.

The critical question for the music industry is how long its difficulties will last. A prolonged slowdown could pose serious financial problems for the entertainment groups that dominata the global music market. Many are counting on a strong performance from their record labels to finance expansion in other sectors. "Market conditions are very uncertain, very shaky," says Mr Tommy Mottola, presidant of Sony Music Entertainment. "There'e a lot of nervousness right now, as people are figuring out what to do."

Record companies have been bere before. Music has historically been a cyclical business, which waxes and wanes with economic confidence. But over the past decade record sales have been buoyed by consumers replacing their favourite vinyl albums with compact discs, and by the emergence of new markets in Asia and latterly Latin America.

Global retail sales soared from $14bn in 1986 to $40bu in 1995, according to the International Federation of the Phonographic Industry, which represents the world's record companies. The industry also benefited from significant growth in income from music publishing, the secretive, but highly profitable business of licensing the rights to broadcast or perform music.

Such spectacular growth encouraged the "Big Five" companies which command 70 per cent of global music sales – PolyGram of the Netherlands, Japan's Sony, Warner of the US, the UK'e EMI and Germany's Bertelsmann – to expand. They have opened new international operations, treated executives to multi-million dollar packages and wooed stars with Hollywood-style contracts. EMI paid Mr Jim Fifield, its chief executive, a £7.4m package last year, and clinched an unprecedented $70m record deal with Janet Jackson, the US pop singer.

"When times are good, record companies spend money, just like Hollywood studios," says Mr Jay Berman, chairman of the Recording Industry Association of America. "It's the nature of the industry."

The first warning that conditions were changing came last year when sales stalled in ths US, the world's largest music market. The principal problem was the instability of tha retail sector, which has heen locked in a vicious cycle of price cutting since Circuit City and Best Buy, the discount electronics chains, started selling cheap CDs. Other discounters, including Wal-Mart, have followed suit.

Record stores are unable to compete against the discounters, many of which treat CDs as loss-leaders, selling Top 20 albums for under $9, against a wholesale price of more than $10. The US association estimates that 1,000 record shops have closed since early last year. Several chains, including Record Giant, have filed for Chapter 11 bankruptcy protection, and the industry is now terrified that Musicland, which accounts for almost a tenth of sales, may also be forced to file.

Even if Musicland survives, Mr Berman suspects the disruption will continue for six months until the market stabilises. After that, he says, the industry must accept cut-price Top 20 CDs as "part of the landscape".

Unfortunately for the US labels, at the same time as discounting has destabilised the Top 20, sales of catalogue, or old albums, have fallen. Most consumers have now completed the process of replacing their vinyl record collections with CDs.

Labels have since placed graater emphasie on new releases. Competition for established stars has intensified, culminating in the $80m deal Warner signed this summer with R.E.M., the US rock group.

And there is now a race to sign new stars. The Fugees, a Sony hip-hop act, has eold 10m copies worldwide of its dehut album released this spring. Alanis Morissette, the Canadian singer on Warner, has sold 16m of hers.

But there is concern that the market has hecome so hits-oriented thet labels are too quick to stop promoting releasee if sales falter. For every Celine Dion, Sony's French-Canadian singer who has had two successful English-language albums, there is a one-hit wonder like Hootie & the Blowfish, the Warner group; its debut album was 1995's US best-seller with sales of 7m, but the band sold 2m copies of this year's follow-up.

"Everyone gets excited about successful first albums, but often don't work hard enough on the second and third," says Mr Clive Davis, president of Arista, the Bertelsmann label. "There isn't enough long-term thinking."

Despite the severity of ths problems in the US, the industry had such strong growth in other countries last year that global sales rose 10 per cent. The UK was buoyed by the popularity of Britpop acts Oasis and Pulp. Asian markets, including Hong Kong, Malaysia and the Philippines, experienced double-digit growth reflecting economic buoyancy and reduced piracy.

But this year the slowdown has spread to other countries. Catalogue sales havs fallen in eome established markets. Canada, France, Italy, Swedan and the Nstherlands experienced real declines in first half sales. Emerging Asian markets also faltered, with sales slowing in Hong Kong, Singapore, South Korea and Thailand, as piracy ross again. The global market mustered negligible growth of 0.2 per cent at retail in the first half, according to the international federation, which means it fell in real terms.

One consolation is that sales have etalled at a high level. Another is that music publishing is still buoyant, and its future prospects appear excellent. More television and radio stations are coming on stream, keen to license the right to play music, and the fees for selling copyrights for films and advertisements are escalating. Sony last week signed a multi-million pound publishing deal with Noel Gallagher, Oasis's songwriter.

Even so, the slowdown in record sales has come at a difficult time from a corporate perspective. PolyGram, which has ploughed $800m of profits from its music interests into a film division that has yet to break even, has seen its shares fall in the fortnight since its profits warning. Shares in EMI, the sole music specialist among the "Big Five", have slipped too, renewing speculation that it may be prey to a bid if they weaken further.

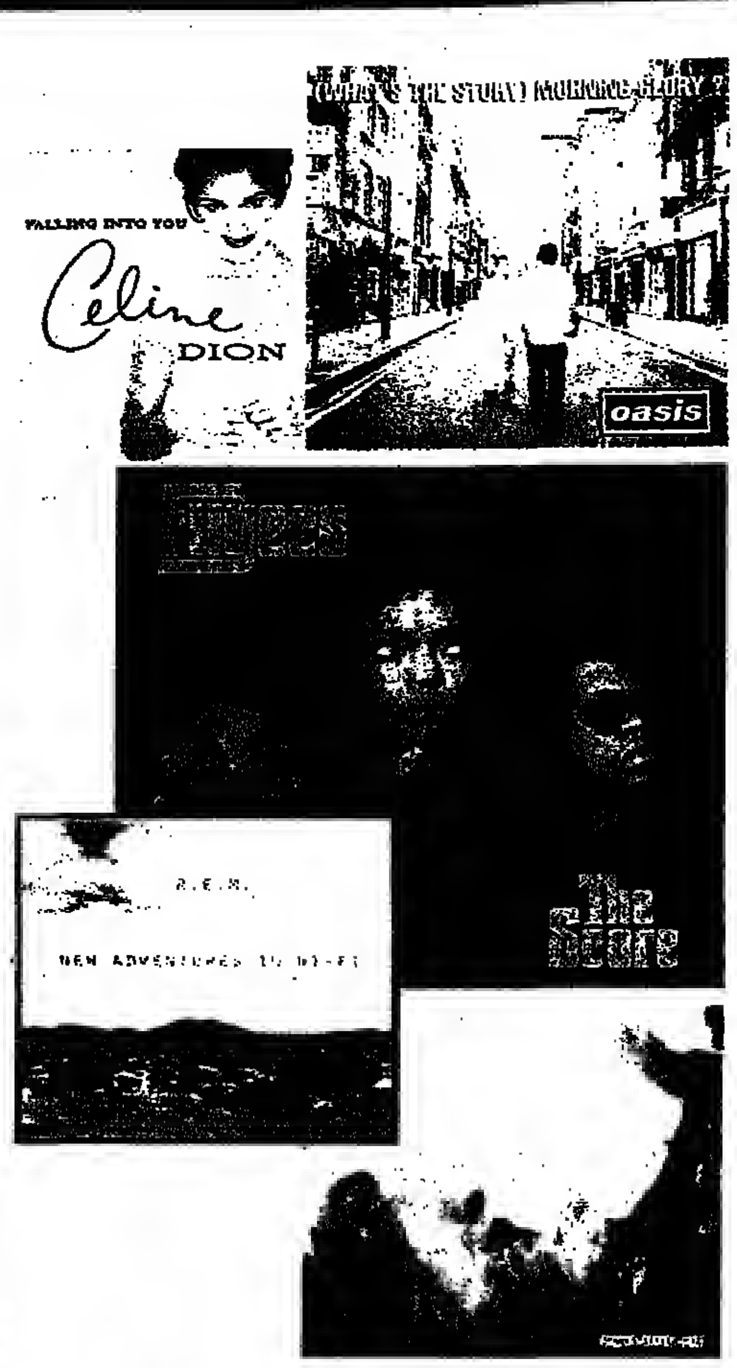
Sony is anxious to sustain its profits growth from music, at a troubled time for Columbia-TriStar, its Hollywood film studio. Similarly Bertelsmann and Time Warner, the US entertainment group which owns Warner Music, have been using music income to finance their expansion in television.

The industry does not expect to see e rapid recovery in its established markets, partly because of continuing decline in CD replacement sales, and partly because competition from other youth-oriented products is heightening. "When video games started we noticed an effect, now we've got CD-Roms and 'event movies' like *Independence Day* too," says Sony's Mr Mottola. "Ws're all competing for the same dollars."

Sales might rally in the traditionally busy Christmas period, if there is a string of hits. EMI has high hopes for the debut album of its new UK act, the Spice Girls, which goes on sale today. But early sales of the autumn releases that US and European retailers had hoped would draw consumers into record ehops, R.E.M.'s *Adventures in Hi-Fi* and Simply Red's *Greatest Hits*, have been below expectations.

The outlook seems brighter in fast-expanding Asian economies where, barring a significant resurgence of piracy, there seems no reason why record sales should not resume double-digit growth. And wben those markets mature in 10 years' time, sales should soar in Latin America.

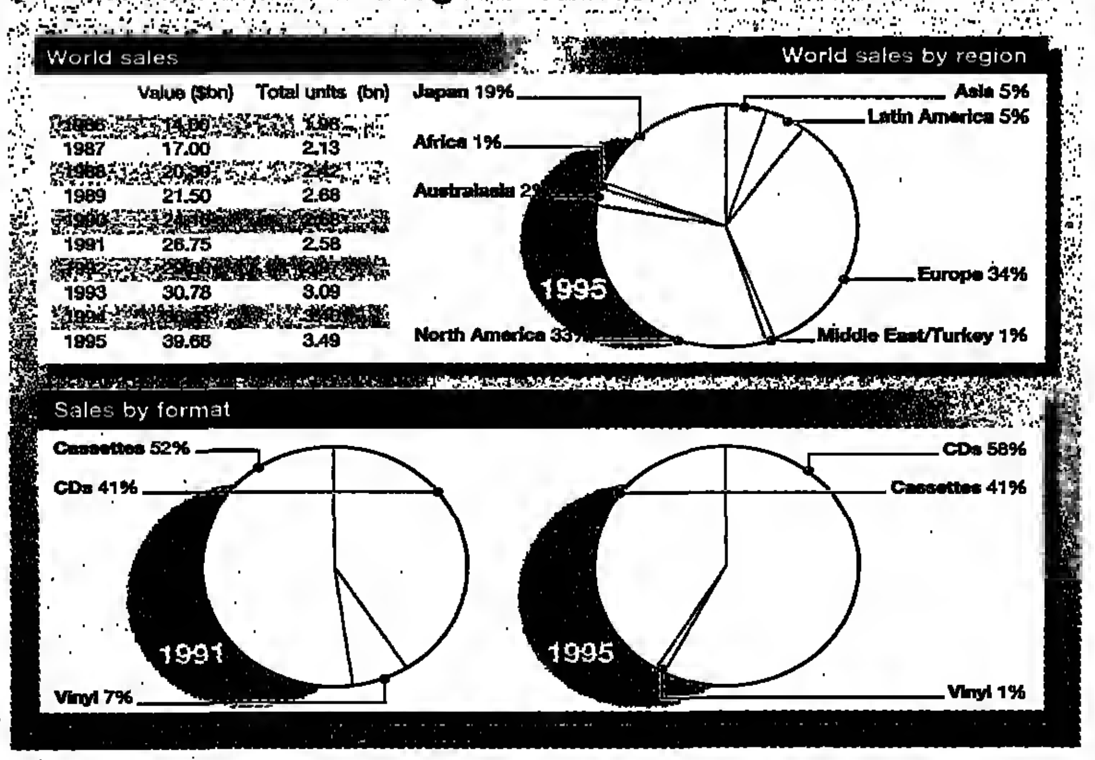
"There's tremendous potential in the Tigers and, longer-term, in Latin America," says Mr Rudi Gassner, president of Bertelsmann's international music interests. "What we don't know is whether in the short term, growth from those markets will compensate for the slowdown elsewhere. That's the gamble."



Recorded music: sounding a flat note?

World sales

	Value ($bn)	Total units (bn)
1986	14.00	1.96
1987	17.00	2.13
1988	20.30	2.42
1989	21.50	2.66
1991	26.75	2.58
1993	30.78	3.09
1995	39.66	3.49



Risk and reward

In the forest of UK financial regulation, something is stirring. In the past, financial service companies have been regulated according to the degree of risk in their business. The new idea is that the burden should depend on their skill at managing risk; that regulation should be not generic, but specific to the business.

That carries a second idea in its train. If regulators are to trust a company's risk controls, they must rely on top management to enforce them. If it then suffers a disaster which costs investors money, top managers must be personally punished.

These ideas, set out by the head of the Securities and Investments Board last week, are being thrown open to debate. Early next year, SIB will produce a discussion paper. So what are the pros and cons?

First, it is right in principle to minimise the cost of regulation, if only because it is carried in the long run by investors. In the post-Barings era, any business will aim to ensure it does not have a Leeson in its midst. If it can show that its internal controls are effective, there seems little point in replicating that effort in the form of regulatory paperwork. Nor should such companies be loaded with extra capital requirements, regulatory fees and so forth.

There are arguments the other way. It is not clear that a more subjective system would have coped better with Barings. Indeed, it would have taken a bold regulator to crack down on such a venerable institution on the basis of personal judgment. In such cases, a more mechanistic system, with alarm bells and lights flashing, might be more reliable.

It could also be argued that a subjective system would favour big companies which can afford elaborate risk control procedures. This is a more open question. It could equally be argued that a big company, being more complex, would find it harder to prove to the regulator that its systems were under control.

As for penalising individuals, the principle is also to be welcomed. Imposing fines on companies for losing investors' money carries the risk that investors themselves will pay the bill. Besides, fining giant corporations the odd million here or there carries an uncertain message to the market.

The problems are equally obvious. For regulators to condemn individuals without legal process smacks of the Star Chamber. Errors of omission, moreover, are notoriously hard to prove.

But all that is detail. The basic principles deserve support: that investors should pay less for their own protection, and that prudence in practitioners should be rewarded.

OBSERVER

Salaries on the line

■ There's plenty of "fizzing" to be done between British Telecommunications and MCI Communications, not least when it comes to paying the men who will together be running the £20bn creation. ... more than enough ... details of the ... Bonfield ... BT executives ... Concert could become a hot issue.

Already, the top brass on both sides have made it clear that one of the world's most dynamic telecoms companies will require suitably dynamic salaries – a cursory examination of existing rewards shows that the boys at BT have got a lot of catching up to do.

It's less than two years since Sir Iain Vallance, BT's chairman, was moved, unwisely, to justify his salary before a Commons select committee by suggesting he would find the stress of a junior doctor "relaxing". Since then, his salary and bonus package for running one of the most successful privatised businesses has barely risen from £650,000 to £667,000. That is a long way behind his new buddy Bert Roberts at MCI.

Roberts' basic salary – the equivalent of £564,000 – is only £100,000 more than Vallance's, but MCI bonuses are in a different league. Last year, Roberts picked up about £1m in extras, leaving Vallance out of sight. As for Sir Peter Bonfield, yesterday busy telling everybody that he'll be running the show, his total package looks distinctly ... £500,000 ... good to talk – and no prizes for guessing what's on the agenda.

Dotty doggy

■ Walt Disney has stepped in something nasty out in Beachwood Canyon, the sparsely populated area above Los Angeles, where the visual glories of the hills are marred only by the word Hollywood, spelt out in 45ft livid-white sheet steel letters.

Its polite request to cover the wonky sign with giant black spots – in a stunt to push its live-action version of the movie 101 Dalmatians – has outraged locals, who have had enough.

Historic Cultural Monument 111, as it is formally known, was last besmirched during the 1992 election race, when it was changed to read "Perotwood" on behalf of the persistent presidential no-hoper. Its most memorable altered state dates back to 1987, when it briefly became "Hollyweed".

Now Edward Cohan, a local homeowners' spokesman, wants to draw the line. The sign is as important to Hollywood as the Eiffel Tower or Big Ben are to Paris and London, he says.

This not entirely helpful remark – which should put European city authorities on guard against similarly dotty ideas from Disney – appeared in a letter to local officials mulling the request.

The company, which has promised to ship in security heavies to keep trippers and media louts away from the sign, has said it is not going to press the issue if the howls grow too loud. Cohan is working on that: "One would hope Los Angeles would finally get a little bit of class."

One would. But one also fears that triumphs of hope over experience in LA seem to be as rare as suburban busybodies with a sense of humour.

Counted out

■ While most news organisations have long since scaled down their coverage of the most boring US presidential election in living memory, the BBC is busy putting the mass back in mass media. At the last count, 74 corporation staff had checked into Washington hotels as part of the mission to explain the result to a tiny British television and radio audience of political junkies and insomniacs.

Let's hope the costly exercise doesn't end in the same farce that occurred in 1992, when a computer glitch had an astonished Peter Snow announcing that Ross Perot was sweeping the country in the most stunning upset in electoral history. If the Beeb had only employed a few hundred more producers, it could have counted the votes more accurately by hand.

Frequent breather

■ Blushes all round at Deutsche Telekom after a sex pest managed to jam the E-mail facility of its T-Online service over the weekend.

Telekom, which has been bombarding the German public with information about its forthcoming share issue, found the boot was on the other foot after 3.4m messages offering services of dubious morality were sent as unsolicited E-mails to online clients. The attack meant many customers were deprived of access to their electronic mail boxes from Friday until noon yesterday. But the meltdown reflected not so much the steamy content of the ads as the fact that 90 per cent were incorrectly addressed.

Financial Times

100 years ago

Chino-Japanese Treaty
Pekin, 4th Nov. The Japanese Minister, M. Hayashi, left here yesterday. The Chinese Government has conferred decorations upon him and several members of the Japanese legation. At midnight on 19th October, the Japanese ultimatum, demanding the conclusion of the treaty of commerce in conformity with the stipulations contained in the treaty of Shimonoseki, expired. The Tsung-li-Yamen becoming alarmed at the expiration of the ultimatum without a settlement having been arrived at, the Minister Chang immediately proceeded to the Palace for the purpose of consulting the Emperor, with the result that the Chinese Government immediately acceded to the Japanese demands.

50 years ago

Republican Victory Forecast
Washington, 4th Nov. A Republican victory was forecast tonight on the eve of the Congressional elections in which an estimated 35,000,000 voters will elect to-morrow an entirely new House of Representatives and a third of the Senate. Final figures of a Gallup poll show that 58 per cent of those questioned preferred Republican Congressmen and 48 per cent Democrats.

FINANCIAL TIMES

Tuesday November 5 1996

Clinton heads for win in US presidential poll

By Jurek Martin in Washington

The US presidential contenders yesterday made their frantic final pitches to the American public, at the end of a campaign that seems certain to send President Bill Clinton back to the White House.

The main election suspense concerned control of Congress, with Republicans remaining guardedly optimistic that they would preserve majorities in both bouses and tbus sct ss a counterbalance to Mr Clinton over the next four years.

Voter turn-out may prove pivotal in many close congressional races. Nationwide, there are nearly 149m registered voters, up from 134m four years ago. But most experts doubt that participation will mucb exceed 50 per cent, down from more than 55 per cent in 1992.

Mr Clinton, recognising the risk of many voters staying at home, bas consistently sought to address potential voter apathy in his climactic campaign round.

This took him back yesterday morning to New Hampshire, thus redeeming his promise of four years ago when the state handed him a decisive primary victory. He was due to arrive in his native Arkansas in the small hours of this morning.

"Are we going to finish the job?" he asked supporiers at a New Hampshire rally. "Your vote will decide."

Mr Bob Dole, tbe increasingly hoarse Republican candidate, zigzagged across the country towards the end of s 96-bour non-stop msrathon tbat bas at least captured some beadlines. "As long as my voice holds out, I will tell the truth," he said in New Mexico.

Mr Ross Perot of the Reform party was blanketing the airwaves with commercials, having reserved more than $20m from his $29m allocation of federsl funds for thia purpose.

According to a clutch of eight final opinion polls, the president was heading either for a landslide victory or for a comfortabls one that would nonetheless enable Mr Dole to salvage respectability.

Only four of the eight had Mr Clinton at or above the 50 per cent mark he claims would constitute s clear second term mandate, against the 43 per cent he won in 1992. But only two had Mr Dols touching 40 per cent and none gave Mr Perot double digits.

Their margins ranged from 18 points in the New York Times/CBS survey to 7.5 points in the Reuter news agency poll. Mr Doug Sosnik, White House political director, put Mr Clinton's advantage at 10-13 points and said "no slippage" had been detected in the states deemed critical for victory.

The concluding compilation of stste polls, published by Ths Hotline nswsletter, did show some gains for Mr Dole. But it still had Mr Clinton ahead in 31 states.

Cynical voters..........Page 4
Editorial Comment..........Page 15

Rebels call ceasefire to free 1m Hutu refugees

By Michela Wrong in Gisenyi, Rwanda, and David Buchan in Paris

Tutsi-led rebels who have seized control of east Zaire from the national army yesterday declared a ceasefire to allow more than 1m Hutu refugees, trapped in the region by fighting, to return to Burundi and Rwanda.

As international efforts to resolve the crisis intensified yesterday, Zaire's President Mobutu Sese Seko flew from Geneva, where hs has been undergoing treatment for prostate cancer, to Nice, where he has a villa. He has mads no public declarations since the situation began to deteriorate.

A United Nations spokesman, quoted by France's AFP news agency, said Mr Raymond Chrétien, the UN special envoy for the central African crisis zone, would leave New York today on a new mediation mission that might start with a visit to Mr Mobutu.

The unilsteral declaration by rebels now holding the capitals of north and south Kivu province paved the way for the creation of humanitarian corridors to supply food, water and medicine to the refugees. EU foreign ministers are expected to discuss the creation of these corridors at an emergency meeting in Brussels on Thursday.

France yesterday called for urgent consultations among African, European and US foreign ministers on Thursday to discuss ways of stabilising eastern Zaire, with troops if necessary, to enable aid to reach starving refugees.

Mr Hervé de Charette, France's foreign minister, urged the international community to react "immediately" to restore law and order in eastern Zaire. His officials said France was ready to join others in sending troops hut wanted to do so under some form of international mandate.

France was criticised hy some European and African partners when it intervened by itself in similar circumstances in Rwanda in 1994.

Britain respondsd cautiously saying that it was seeking more details of the French proposal. Any such initiative "would need to complement" a meeting of regional African leaders, due to take place in Nairobi on Thursday.

Mr Laurent Kabila, spokesman for the rebel movement which launched its offensive a fortnight ago, said the three-week ceasefire would allow the UN High Commissioner for Refugees, Red Cross and other organisations to "evacuate voluntarily the refugees to their country of origin".

Airbus order book lifted by $2bn Emirates deal

By Michael Skapinker in London and Robin Allen in Abu Dhabi

Airbus Industrie yesterday won an order for up to 23 A330s from Emirates, the Middle Eastern carrier, putting the European manufacturing consortium on course to sell three times as many aircraft this year as in 1995.

Emirates said it had placed firm orders for 16 A330-200s, worth up to $2bn. This would include the cost of engines, for which the airline has not yet announced a supplier. It has taken options on a further seven A330 aircraft.

The deal brings the number of orders won by Airbus this year to 288, compared with 106 in 1995. However, Airbus, owned by Aérospatiale of France, Daimler-Benz Aerospace of Germany, British Aerospace, and Casa of Spain, is likely to end the year far behind Boeing. Its US rival has taken 504 orders this year, compared with 346 in 1995.

Airbus will help Emirates find customers for its old A310s and A300s. Sheikh Ahmed Bin Saeed al-Maktoum, Emirates' chairman, suggested Airbus might buy them back.

Emirates will use the new A330s, which carry 243 passengers, on non-stop services from Dubai to Europe, south-east Asia and South Africa.

It is the first airline in the Middle East to order the A330-200 and is the largest airline customer for the new twin jet.

Emirates, a long-standing Airbus customer, has also placed seven orders for Boeing 777s; three have been delivered.

Airbus yesterday also announced it had signed a memorandum of understanding with Rolls-Royce, agreeing to use the British manufacturer's Trent 900 engine on the A3XX, its planned 550-seat aircraft.

Talks are also continuing with General Electric and Pratt & Whitney of the US, which are expected jointly to design and produce a power plant for aircraft with capacity for more than 500 passengers.

Airbus has said it needs to be in the large aircraft market to compete with Boeing by offering a full range of aircraft.

Boeing said last week it would spend $7bn developing the 550-seat 747-600X and the long-range 460-seat 747-500X. It dismissed Airbus's claim that it could build the completely new A3XX for $8bn or less.

Fuel costs 'threaten airline profits', Page 7

Tax-free Chechnya plan

Continued from Page 1

claimed the scheme is simply a means of buying off the Chechnya separatist elite.

To "control and regulate" this situation, the document says Moscow must establish strict control over all movement of people and goods into and out of Chechnya and must oversee all financial transactions between Chechnya and the rest of the world.

But the memo's authors fear that imposing such regulations might provoke "a negative reaction from the Russian mass media, some international organisations (the Council of Europe, the OSCE) and a number of foreign countries (the Baltic states, Ukraine, Turkey)" all of whom could "accuse the federal authorities of creating a *cordon sanitaire* around Chechnya".

The memo suggests that a special economic zone would be a way of pre-empting these objections.

Emu talks

Continued from Page 1

Theo Waigel, German finance minister, first proposed the stability pact to guard against fiscal delinquency among Emu participants and as an insurance policy against an overly flexible reading of Maastricht.

But last month, the full Commission refused to bow to German demands to define the "temporary and exceptional circumstances" under which a country could run an excessive deficit and escape sanctions.

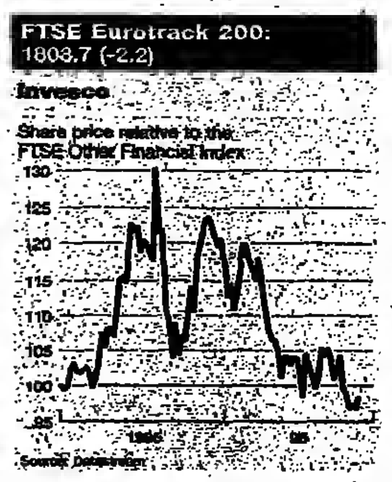
THE LEX COLUMN

Atlantic arbitrage

On the face of it, the planned BT/MCI merger offers a fantastic arbitrage opportunity. Buying MCI shares is s cheap way of getting exposure to BT. BT shareholders could probably profit by selling their shares and buying MCI ones instead.

This is how the maths work. If the deal goes through, each MCI share will be swapped for $6 cash and 5.4 BT shares. Subtract $6 from the cost of an MCI share and one can in effect buy 5.4 new BT shares for less than $25 – roughly 280p a share. New BT shares are not worth as much as current BT shares, because they will not enjoy either the 35p special dividend or the 20p ordinary one. But after subtracting 55p from ths current BT share price, the notional price of an ex-dividend BT share is still 318¼p – 14 per cent more than the cost of buying them via MCI.

There are two possible reasons why this gap has not closed. First, the smart money may be factoring in the risk that the deal will be blocked, in which case MCI's shares would sink whereas BT's would hold up. There is probably some truth in this, but it is unlikely to explain such a wide gap given that most commentators think the deal will be cleared. Secondly, financial markets are not perfectly efficient. While professional arbitrageurs have certainly spotted the opportunity, the sheer weight of money from BT investors who like the deal and MCI shareholders who are taking profits could be drowning them out. If so, there is still time for others to exploit the anomaly.



Special dividends

When a company unexpectedly announces a special dividend, as BT did at tha weekend, how far should its shares rise? According to a common theory, the shares should rise hy tha full extent of the special dividend. Bnt a moment's thought shows this is nonsense. If it were valid, a company could boost its share price to whatever level it chose merely by announcing a dividend to match the desired increase. Sadly, such financial alchemy does not exist because, as cash is paid out, the value of what is left shrinks.

This leads some to go to the opposite extreme and argue that a special dividend should have no impact on a company's share price. True, the gearing accompanying special dividends boosts returns on equity. But since risks also rise, shareholders demand a higher return in compensation. According to ths famous Modigliani/Miller hypothesis, the effects cancel one another out.

Modigliani/Miller is fine in theory. But, in practice, there are two factors which still often make gearing up an attractive proposition. First, replacing equity with debt has tax advantages, because interest is tax deductible. Second, a company is less likely to waste capital if it is on a tight leash than if it has cash sloshing around. This point, of course, cuts both ways: a highly-indebted company is less able to grasp opportunities than a debt-free one. That only goes to show that the optimal debt level depends on how many good opportunities a company has within its reach.

Invesco

Strategically, it is difficult to fault the logic of the $1.6hn merger between fund managers Invesco and AIM. Synergy is an overworked term, hut in this case it is appropriate. AIM has a strong US retail presence, a developed distribution network, and a growth style of investment. Invesco has a good institutional client base, a value investment philosophy, and strength in the fast growing market for so-called 401(k) personal pension plans. Together, the two companies have the product diversity and market reach neither could have achieved alone without considerable time and expense.

Invesco has not got AIM on the cheap. It has paid a price equivalent to 2.8 per cent of assets under management, towards the top end of other similar deals. But it is buying a business with an exceptional record: funds under management have grown at a compound 35 per cent s year over the past 3½ years. Moreover, longer term prospects are good, with individuals increasingly putting long-term savings into shares and bonds.

The risk is that Invesco could be buying at the top of tbe market; if Wall Street crashes, the deal will look very expensive. But given the growth prospects for the fund management industry, the shares look attractive. A price/earnings ratio of around 13 times prospective 1996 earnings is well below the weighted average of 16.3 for UK fund managers, while their US peers trade on multiples in the high teens.

Rhône-Poulenc

Rhône-Poulenc's decision to rule ont a demerger of its chemicals and healthcare businesses looks antediluvian. Its rivals, from Imperial Chemical Industries and Hoechst to Ciba and Sandoz, have either announced or carried out such a split and unlocked huge value for their shareholders.

There is hidden value in the French group as well. Most of its pharmaceuticals interests are held through Rhône-Poulenc Rorer, its 68 per cent-owned US arm. At current prices thst is worth FFr100 of Rhône-Poulenc's FFr150½ share price. This leaves the rump trading on a bulk chemicals valuation of 0.8 times enterprise value to 1995 turnover, similar to BASF. Yet 40 per cent of that rump by sales and 85 per cent by profits comes from high-margin life sciences businesses. Mr Jean-René Fourtou, Rhône-Poulenc's chairman, argues the group's share price will rise to reflect this in time. That sounds complacent. The market did not value either ICI's or Hoechst's drugs businesses properly while they remained buried in a bigger group.

Mr Fourtou is anyway in danger of approaching the problem from the wrong side. Instead of demerging pharmaceuticals, he should sell the chemicals businesses. In their current poor state they might fetch only 0.5 times sales – say FFr18bn – hut that would still make inroads into the gronp's heavy debt and leave a pure life sciences group, similar to Zeneca or Novartis, which would deserve a much higher rating.

Additional Lex comment on ABF, Page 24

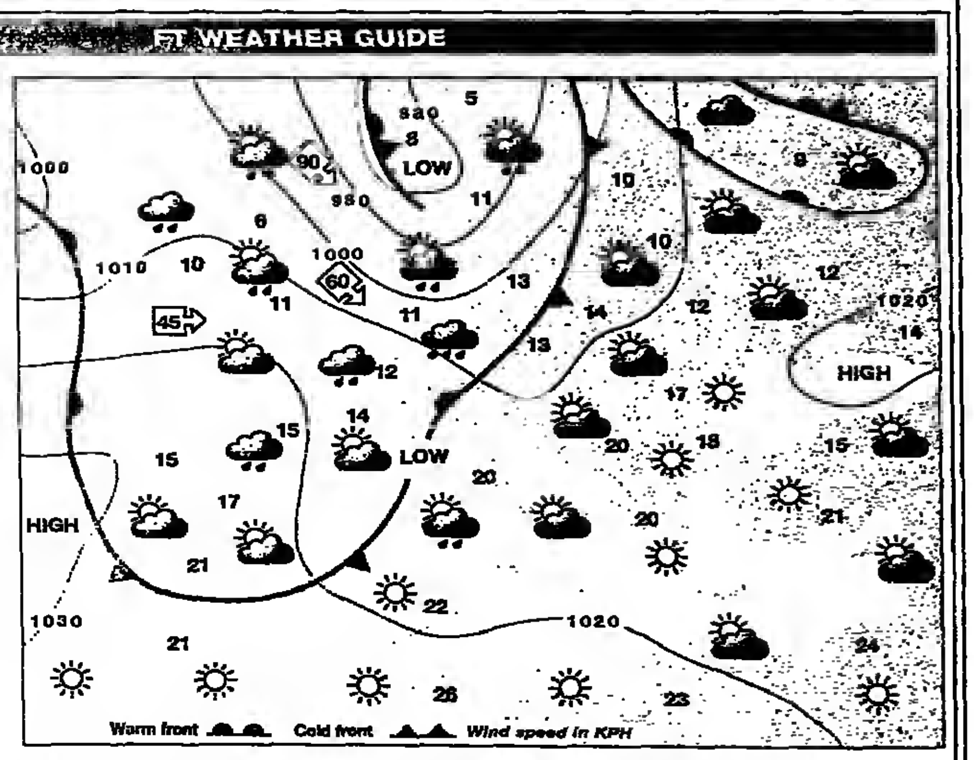
FT WEATHER GUIDE

Europe today

A strong westerly air flow will move depressions from the Atlantic across the continent. Scandinavia will have plenty of wind and rain. The rain will turn to snow in northern Norway as temperatures slip below freezing. In the rest of Europe, cloud, wind, rain or showers will dominate. In Scotland, these showers will be accompanied by sleet. The Mediterranean will be cloudy and only the south-east of Europe will be sunny.

Five-day forecast

Several fronts will move in from the Atlantic, crossing the UK into western Europe. Cloud, wind, rain and showers will prevail for the next few days. During this period, the region around the Atlantic coast and the North Sea will have gales or even strong gales.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius	
Abu Dhabi	sun	30
Accra	fair	31
Algiers	cloudy	19
Amsterdam	shower	11
Athens	sun	20
Atlanta	fair	21
B. Aires	fair	27
B.ham	shower	10
Bangkok	shower	33
Barcelona	fair	18
Beijing	fair	11
Belfast	shower	7
Belgrade	sun	13
Berlin	shower	13
Bermuda	fair	26
Bogota	shower	21
Bombay	sun	33
Brussels	shower	11
Budapest	fair	14
C.hagen	rain	11
Cairo	fair	23
Cape Town	fair	21
Caracas	thund	31
Cardiff	shower	11
Casablanca	fair	22
Chicago	rain	13
Cologne	shower	11
Dakar	fair	34
Dallas	fair	25
Delhi	sun	29
Dubai	sun	32
Dublin	shower	9
Dubrovnik	fair	20
Edinburgh	shower	7
Faro	fair	21
Frankfurt	shower	12
Geneva	shower	14
Gibraltar	fair	20
Glasgow	shower	7
Hamburg	shower	11
Helsinki	rain	10
Hong Kong	fair	28
Honolulu	fair	30
Istanbul	sun	18
Jakarta	cloudy	31
Jersey	shower	12
Karachi	sun	32
Kuwait	sun	34
L. Angeles	fair	20
Las Palmas	sun	25
Lima	cloudy	21
Lisbon	fair	21
London	shower	11
Lux.bourg	shower	8
Lyon	shower	13
Madeira	sun	22
Madrid	fair	17
Majorca	shower	18
Malta	sun	21
Manchester	shower	9
Manila	shower	30
Melbourne	fair	18
Mexico City	fair	20
Miami	sun	29
Milan	rain	11
Montreal	cloudy	6
Moscow	cloudy	7
Munich	shower	15
Nairobi	shower	29
Naples	rain	18
Nassau	fair	28
New York	fair	15
Nice	fair	15
Nicosia	sun	23
Oslo	rain	8
Paris	shower	11
Perth	thund	32
Prague	fair	13
Rangoon	shower	31
Reykjavik	snow	-3
Rio	thund	26
Rome	cloudy	20
S. Frisco	sun	18
Seoul	fair	15
Singapore	shower	22
Stockholm	rain	12
Strasbourg	shower	14
Sydney	rain	18
Tangier	fair	21
Tel Aviv	shower	23
Tokyo	rain	18
Toronto	rain	9
Vancouver	rain	8
Venice	shower	12
Vienna	fair	13
Warsaw	rain	13
Washington	fair	18
Wellington	cloudy	14
Winnipeg	snow	2
Zurich	shower	11

FINANCIAL TIMES
COMPANIES & MARKETS
©THE FINANCIAL TIMES LIMITED 1996 Tuesday November 5 1996

IN BRIEF

BNP cancels bond issue

A $150m bond issue of floating rate notes for Banque Nationale de Paris was pulled just two days before it was due to close. CS First Boston, the lead manager, said the withdrawal had come "as a result of press reports concerning the French government's possible sale of CIC" – a bank roughly half the size of BNP that it is reported to be bidding for. Page 26

Astra profits rise 8%
Astra, the Swedish pharmaceuticals group, announced an 8 per cent jump in nine-month profits, driven by double-digit sales growth of its blockbuster anti-ulcer drug Losec. Pre-tax profits rose from SKr9.1bn ($1.38bn) to SKr9.85bn. Page 18

French group eyes Latin America
Lyonnaise des Eaux, the French services, communications and construction group, is poised to set up an equity risk fund to help infrastructure projects in Latin America. Page 18

Egypt privatisation in new phase
Egypt's privatisation programme entered a new phase last week when the government announced the privatisation of 91 companies, scheduled to be sold by June 1998. Page 19

William Resources bids for Terra
William Resources, of Canada, has made a SKr716.1m ($108.75m) bid for Terra Mining, owner of western Europe's biggest gold mine, the Bjorkdal mine 320km south of the Arctic circle in Sweden. The Canadian company started the year with no gold production but now has four operating mines. Page 21

Air alliance 'in first quarter' of 1997
Robert Crandall, chairman of AMR Corp, parent of American Airlines, said he expected regulatory approval for the planned American Airlines alliance with British Airways by "the end of the first quarter" of 1997. He thought the alliance would be implemented three to five months after that. Mr Crandall was speaking at the annual meeting of the International Air Transport Association.

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)				**Falls**			
Rises				Burcon Intl	8	-	2
Volkswagen Prf	474.25	+	5.75	Schneider	11.0	-	0.85
Falls				Spectrum Sig	9.05	-	0.95
Goldschmidt	645	-	13	**PARIS (FFr)**			
Ind Werke	318	-	6	**Rises**			
Kali & Salz	159.0	-	4.3	Elf Aquitaine	415	+	6.2
Preussag	362.0	-	6.3	Essilor Int	1370	+	44
Rheinmetall	199	-	5	GTM-Entrepose	246.2	+	5.7
NEW YORK ($)				SLIC	735	+	15
Rises				Synthelabo	496.5	+	8.5
Brit Telecom	61⅛	+	5⅛	**Falls**			
Diana Corp	31⅛	+	2¼	Club Med	314.9	-	7.0
Eckerd Corp	32⅞	+	4½	**HONG KONG (HK$)**			
Hughes Supply	41⅛	+	2¼	**Rises**			
Falls				Chinese Est.H	7.25	+	0.2
Cadence Design	33	-	2¼	Great Eagle	27.00	+	1.65
Sierra Health	23¾	-	5¼	Hasco	21.95	+	0.80
LONDON (Pence)				Hysan Dev	25.95	+	0.45
Rises				TVB	28.00	+	0.65
Allzyme	45½	+	5½	**Falls**			
Chelsea Village	113½	+	16¼	Amoy Props	9.35	-	0.15
Falls				**BANGKOK (Baht)**			
Active Imaging	89½	-	25	**Rises**			
British Biotech	207¼	-	21½	Prakit & FCB	57	+	5
Chemical Design	140	-	25	Thai Finance	75.5	+	6.5
Verity	32¼	-	8¼	**Falls**			
TORONTO (C$)				Alochot Hosp	20.75	-	2.25
Rises				Kiang Huat	51.5	-	5.0
Corriente Res	6.2	+	1.3	Prop Perfect	33.5	-	3.0
Edper Grp Res	30	+	9	Thai Rayon	129	-	14
Major Drilling	14	+	1				

Tokyo closed. New York and Toronto prices as at 12:30.

Carlo De Benedetti's controlling 27% interest valued at $1.2bn

CGIP poised to buy Valeo stake

By David Owen in Paris

Compagnie Générale d'Industrie et de Participations, the French industrial holding company, is set to announce today the purchase of Mr Carlo De Benedetti's controlling stake in Valeo, the French automotive components group. It brings to an end one of France's longest-running corporate sagas.

The deal, expected to value the Italian industrialist's more than 27 per cent interest – held through Cerus, his French holding company – at more than FFr6bn ($1.2bn) is expected to be unveiled at a series of press conferences in Paris this morning.

It comes less than two weeks after CGIP, which is chaired by Mr Ernest-Antoine Seillière, a Valeo board member, raised more than $560m by selling half its 19.9 per cent stake in Crown Cork & Seal, the US packaging group. CGIP said at the time it hoped to reach an agreement to buy Mr De Benedetti's stake "within weeks".

Invitations to the press conferences were released last night after the Paris stock market closed with Valeo shares ahead FFr4, or 1.3 per cent, at FFr310.50.

At this level, the Cerus shares would be valued at just under FFr6bn. However, CGIP is widely expected to have to pay a premium. This could take the value of the deal comfortably above the FFr6bn mark. Cerus shares also rose strongly yesterday, climbing FFr5.20, or 3.9 per cent, to FFr137.10. CGIP advanced FFr3 to FFr1,146.

Announcement of a deal that would keep Valeo in French hands will come as a relief to the French government, which has come under fire in recent weeks from the unions and leftwing politicians for sanctioning the proposed sale of part of the state-owned Thomson electronics group to Daewoo of South Korea.

Mr Seillière conceded last month after the Crown Cork & Seal sale that his plan to buy Cerus's Valeo stake was inspired partly by a desire to keep the company in French hands, and may not have been considered if the interests of CGIP's shareholders were his only consideration. But he said CGIP had not been put under pressure by the French government.

Speculation earlier this year of a possible interest in the Cerus stake on the part of at least two US companies sparked an outburst from some of Valeo's biggest customers. Mr Jacques Calvet, head of France's Peugeot-Citroën motor group, was particularly vocal.

Valeo is one of the handful of large French industrial companies whose management is admired by institutional investors outside France as well as inside. In September, it announced a 4.3 per cent advance to FFr656m in first-half net profits.

However, the scale of the increase was lessened by the inclusion in 1995 figures of a FFr130m capital gain. Excluding this gain, the figure rose a more impressive 31 per cent.

Hoping to convince market of marimastat's effectiveness: James Noble (left), British Biotech's finance director, and Keith McCullagh, the company's chief executive Picture: Northants Press Agency

British Biotech cancer drug data disappoint market

By Daniel Green in London

British Biotech failed to convince the stock market yesterday that the latest data on trials of its cancer drug marimastat were an improvement on its previous results.

The company's shares fell 21½p to 207¼p, below the 212p at which Morgan Grenfell sold more than 21m shares in the company last week.

The shares were also hit by British Biotech's new insistence that none of the data published so far can be given to regulators handling drug approvals. The UK biotechnology sector is the most vibrant outside North America and British Biotech is considered one of its best hopes.

Investor excitement over the prospects for marimastat pushed the shares above 300p in the spring.

The trial results published yesterday are based mainly on chemical changes in the blood of cancer patients rather than on how long they survive. That gives them the medical status of interesting anecdotes of debatable significance.

The evidence presented yesterday at the European Society for Medical Oncology meeting in Vienna was "encouraging", said Mr James Noble, British Biotech finance director. It suggests the drug has a similar effect on at least four cancers rather than three, as previously published. It also seems to confirm an increasing effect with higher doses.

In addition, doctors treating 14 people with stomach cancer found tumours in four of them were encased in fibrous tissue.

The results make it less likely that the changes seen in patients in the trials are the result of a placebo effect, in which a patient responds to a dummy drug for psychological reasons. The final trial is designed to eliminate this.

The company has now started four "phase III" trials, the final stage, which will be used for regulatory submission. The tests are in stomach, pancreatic and lung cancer, and the brain cancer called glioblastoma. Results are not expected until 1998.

So far 381 patients have been tested in Phase II trials. They have tended to respond to twice-daily doses of 10 milligrammes of the drug but not to once-a-day treatment. The average survival of patients who continued beyond 28 days on the drug was up to twice as long as those who did not.

Separately, the company sought to counter criticism in The Lancet medical journal during the summer which said British Biotech's trials had been distorted by the fact that the patients chosen were those whose health, as measured by blood chemicals called cancer antigens, was declining fastest.

A "good" result could be because those patients reverted to average rates of decline, said The Lancet.

British Biotech said new tests showed that patients whose rates of antigen decline fell tended to live longer.

Invesco to buy US fund group in $1.6bn deal

By Christopher Brown-Humes in London and John Authers in New York

Invesco, the UK fund management group, yesterday agreed to buy AIM Management Group of the US for $1.6bn (£980m) creating one of the world's top five independent fund managers.

Invesco is paying the privately owned, Texas-based AIM $1.1bn in shares and $500m in cash. This will leave AIM shareholders with 45 per cent of the new company.

Messrs Charles Bauer, Robert Graham and Gary Crum, who founded AIM in 1976, will have a holding of 19.7 per cent, worth $315m.

The new group, to be known as Amvesco, will have more than $150bn under management. The Invesco chairman, Mr Charles Brady, who will be chairman and chief executive of Amvesco, called it a "dynamic deal" for shareholders, investors and employees. "These two companies fit each other like a glove," he added.

The deal broadens the product range and expands the distribution capabilities of both companies. It will balance AIM's traditional retail orientation with the stronger institutional bias of Invesco, and combines two different investment styles, with Invesco's the more conservative.

At the same time, Invesco can use AIM's extensive US broker distribution network, while AIM gains accese to Invesco's global network.

Both companies already derive the vast majority of their business from the US. But Invesco will gain a stronger hold on the increasingly lucrative market for US mutual funds (the equivalent of UK unit trusts). In the last decade, mutual funds have overtaken banks and life insurance companies to become the largest supplier of personal sevings, with $3,324bn under management at the end of September. A year earlier the figure was $2,673bn.

It also allows the new company to take advantage of two recent trends: the expansion of mutual funds into the corporate pensions market, and a tendency for fund managers to compete on price.

The deal prices AIM at 2.8 per cent of its £57bn in assets under management, which analysts say is at the top end of the range of recent deals. These include Morgan Stanley's purchase of Van Kampen American Capital, and the Franklin Resources acquisition of Heine Securities.

The merger is conditional on approval by AIM and Invesco shareholders. Holders of a majority of AIM's shares have agreed to vote in favour of the deal, which is expected to be completed next February.

Lex, Page 16

French chemicals group sees demerger as unlikely

By David Owen in Paris

Rhône-Poulenc, the French chemicals and drugs group, appears to have ruled out splitting its pharmaceuticals and chemicals activities into two companies – at least for the time being.

Mr Jean-René Fourtou, chairman and chief executive, predicted in an interview that the company's share price would increase without a split. He said the quality of the group's businesses – "even chemicals" – would be recognised by the market in the oext two years, and that there were already signs of this.

Rhône-Poulenc ehares hava performed strongly this year, climbing by more than 40 per cent from FFr104.90 at the end of 1995 to yesterday's close at FFr150.50 ($30). On the day last month when the company reported a 13 per cent increase in third-quarter net income to FFr756m, they rose 3 per cent.

Even at today's levels, bowever, they are only marginally above the FFr146 price paid by institutional investors in the second stage of privetisation almost three years ago.

Mr Fourtou said more than half of the group's chemicals businesses were "in excellent bealth". This was in spite of the fact that the operating margin achieved by the division in the first nine months was little more than 5 per cent.

He said this figure was composed of some businesses with margins of 15 per cent and others with negative margins.

"Our problem is how to administer the least bad solution possible to some of our businesses," be said. After 20 years of restructuring, Mr Fourtou made clear the company would take its time over addressing this problem.

He said the company's era of acquisitions had ended, baving bought a string of businesses in the past 10 years. The company bad also attained the objectives of being present in all global markets and being among the world's 10 leading companies in its principal businesses.

"Today our focus is on profitability and no longer on an expansion that was strategically necessary," be said.

Lex, Page 18; RPR drug study 'promising', Page 18

Belgian bank launches $1bn offer as part of French alliance

By Neil Buckley in Brussels

Crédit Communal de Belgique, the Belgian municipally-owned bank, yesterday launched one of the country's largest initial public offerings – expected to be worth almost $1bn – as part of its link-up with Crédit Local de France to create tha Dexia group.

The offer of up to 12.67m shares, or 34.5 per cent of the bank's capital, opened yesterday to financial institutions and will open to Belgian retail investors on Friday.

Some 1.83m shares, or 5 per cent of equity, have been pre-placed with SMAP, the Belgian municipally-owned insurance company.

Crédit Communal, Belgium's second-largest bank and owned by local authorities, and Crédit Local, which specialises in public-sector lending in France, announced plans last spring to join forces to create a bank big enough to compete internationally. The plans envisaged flotation of between 25 and 30 per cent of the Belgian partner.

Both sets of shareholders last month approved creation of Dexia, which will be ranked 22nd among European banks.

Mr François Narmon, chairman of the Belgian bank, said Dexia planned to expand into local authority lending in eastern and southern Europe, as well as infrastructure financing, and the health and environment sectors.

Analysts say the alliance, involving management co-ordination and mutual lending rather than a formal merger, will create an important player in international public sector finance.

It will allow the partners to diversify sources of funding and exchange products and clientele.

The French bank, listed on the Paris bourse, is due to pay a FFr25.50 per share exceptional dividend before the alliance is completed. Crédit Communal said its offer price would be largely based on its French partner's share price, taking into account the likely impact of the exceptional dividend.

A maximum indicative price will be published on Friday, but the issue price will not be fixed until November 20, the first day of trading of the shares on the Brussels bourse. The offer is due to close on November 15.

Crédit Local's shares ended unchanged at FFr439.8 yesterday, equivalent to BFr2,678, prompting analysts to forecast total proceeds from the Belgian offering of at least BFr30bn ($950m).

A total of 11.01m shares are being offered initially, with the issuing syndicate, co-ordinated by Morgan Stanley, able to increase the offer by 15 per cent, or 1.65m shares, to meet any additional demand.

Second profits warning knocks Aga

By Jenny Luesby

Aga, the Swedish industrial gases group, yesterday issued its second profits warning this year, as it unveiled nine-month results that knocked back its share price by 2 per cent.

The shares closed down SKr2.50, at SKr103.

At the halfway stage, the group had warned that profits were likely to be 10 per cent lower this year than in 1995. Yesterday, the group revised its estimate of the decline in 1996 to 15 per cent.

It blamed the strength of the Swedish krona and weak economic activity in Europe and Latin America for the deterioration.

In the nine months to the end of September, sales fell 5 per cent to SKr9.52bn ($1.44bn). If exchange rates had remained constant, turnover would have risen 3 per cent, Aga said.

Profits were lifted by a SKr1.8bn gain on the sale of the company's shares in Gullspangs Kraft, a regional power supplier.

However, excluding this one-off gain, pre-tax profits fell by 14 per cent, to SKr1.38bn. The company said almost half of this decline had been caused by currency movements, which included a substantial devaluation in Venezuela.

The group's profits were also drained by weak demand and price pressures in Europe and Latin America.

The industrial gases sector is normally less cyclical than the other sectors that supply manufacturing industry, with much of the gas produced on site and sold on a take-or-pay basis.

However, Aga is concentrated in the cylinder gas business, where its main customers are small and medium-sized businesses in the metal working sector.

It is also more exposed than its competitors to the European market.

In the nine-month period, operating profits had fallen sharply in Germany and Finland, the group said.

The scale of the group's expansion programme in the US, eastern Europe and Latin America had also created financial pressures.

Mr Marcus Storch, chief executive, said that the high tempo of the programme had led to "short-term disruptions and additional costs". At the same time, the group's new markets had "not yet gathered momentum".

From 1995 to 1997, Aga's annual investment in new plant and equipment is set to top 20 per cent of sales revenue. Most of this is being financed from the group's own funds.

It has also been making acquisitions. Last week, it completed the $200m purchase of four air separation plants in the US, from Praxair. This deal would have a negative impact on earnings until 1998, the group said.

Aga yesterday announced two smaller acquisitions in Puerto Rico: General Gases and Supplies, with annual sales of $30m, and Liquid Air Puerto Rico, with sales of $8m.

Lyonnaise plans fund for Latin America

By Andrew Jack in Sydney

Lyonnaise des Eaux, the French services, communications and construction group, is poised to set up an equity risk fund to help finance infrastructure projects in Latin America.

Mr Jerome Monod, chairman, said yesterday that the Lyonnaise board was due to make a decision on the fund at the next board meeting, with the idea of launching it next year.

The fund would be similar to the Lyonnaise Asia Water fund established by the group two years ago, which has $222m available to provide equity investment for water-related infrastructure projects in Asia, Australia and New Zealand.

The funds represent a way for Lyonnaise to help provide a financing package alongside its technical expertise when bidding for contracts around the world.

Speaking at the inauguration of the Prospect water treatment plants near Sydney, which was won by Lyonnaise in conjunction with two other partners, Mr Monod said the Asia fund's capacity would be increased shortly to $300m.

The additional support is coming from AIG, the US insurance group, and the government of Singapore.

Lyonnaise has 20 per cent of the voting rights and is the managing partner of the existing fund. Its aim is to provide half of the equity financing component of water infrastructure projects, which comprise some 20-30 per cent of its total financing costs.

A little less than $50m has so far been committed from the Asia fund for Lyonnaise projects in Malaysia and China, and will be an element for all the group's future bids in the region.

Mr Monod said he believed that, within the next few years, Asia would contribute more than half of the sales of the water division of the group.

It already employs 15,000 staff in the Asia-Pacific region and serves 6m clients.

Mr Monod said his group was in discussions with at least one other partner for the prospective Latin American fund, but he would not identify it.

The aim of the funds was to act partly as an initial lever to encourage other forms of the long-term financing necessary for water projects – which typically have a duration of 20-25 years – and provide a way for local partners of the group on particular projects to take an equity participation.

Astra meets forecasts with 8% improvement

By Greg McIvor in Stockholm

Astra, the Swedish pharmaceuticals group, yesterday announced an 8 per cent jump in nine-month profits, driven by double-digit sales growth of Losec, its blockbuster anti-ulcer drug.

Pre-tax profits were in line with market expectations, rising from SKr9.1bn to SKr9.85bn ($1.49bn). Astra's most-traded A shares closed unchanged at SKr302.

The company, whose chief executive is Mr Hakan Mogren, said negative currency factors knocked 3 per cent off pre-tax earnings. Group sales rose 5 per cent, from SKr26.7bn to SKr28bn, but Astra said the gain would have been 16 per cent had it not been for the stronger krona.

Third-quarter pre-tax profits advanced from SKr2.8bn to SKr3.1bn, an increase of 11 per cent. Earnings per share rose from SKr10.76 to SKr11.40, while third-quarter sales increased from SKr8.6bn to SKr9bn.

Losec, which is poised to become the world's biggest-selling prescription drug this year, accounted for 45 per cent of group turnover. Its sales grew 12 per cent, or 22 per cent at constant exchange rates, from SKr11.4bn to SKr12.7bn.

Total sales of Losec in the world market, including joint ventures and licence production, were SKr17.8bn, against SKr15.6bn.

The US market was the main engine of Losec's growth, with nine-month sales there ahead 37 per cent. Losec is sold in the US in collaboration with Merck, the US pharmaceuticals group. Astra claimed Losec had 32 per cent of the US market for so-called acid inhibitor agents in the third quarter, against 23 per cent the year before.

It said Losec was continuing to gain ground in Europe against competitor drugs such as Zantac, produced by Glaxo Wellcome of the UK, and its market share was above 40 per cent.

The company expressed confidence that high growth would continue for its products in the US, where it is due to launch its second-biggest selling drug, Pulmicort, early next year using its Turbuhaler inhalation device. It predicted annual growth of 25-30 per cent in the US over the next few years.

Mr Colin Gibson, a London-based analyst at Union Bank of Switzerland, said: "The third-quarter figures are quite good, but they are entirely due to Losec and nothing else. It just focuses the debate on what Astra is going to do after Losec [whose patent protection starts to expire in 2001]."

Pulmicort sales rose from SKr3.2bn to SKr3.3bn, or 13 per cent excluding exchange rate fluctuations. Sales of Seloken, a beta-blocker, progressed from SKr1.8bn to SKr1.9bn, mainly due to growth in the US.

Research and development spending increased 25 per cent from SKr3.9bn to SKr4.9bn. This was partly due to the acquisition last year of the R&D operations of Fisons of the UK. Comparable R&D spending grew 18 per cent.

Haken Mogren: Astra is confident of continued growth in the US

Spanish groups end TV joint venture

By Tom Burns in Madrid

Telefónica, Spain's telecoms operator, and Sogecable, a broadcaster managed by Grupo Prisa, the main domestic media company, are due to wind up a controversial cable television joint venture, called Cablevisión, in order to concentrate on separate digital television projects.

Created in July 1995, Cablevisión has come under the scrutiny of Brussels following allegations that it could breach European Union competition rules, because of Telefónica's dominant position in the local market.

The telecoms operator has invested some Pta20bn ($157m) over the past three years to install cable infrastructure in most Spanish towns with populations of more than 50,000.

In July, the venture's progress was in effect blocked by the new centre-right government formed by the Popular party, which imposed a two-year moratorium on the start-up of cable broadcasting in order to encourage the creation of other groups in the sector.

Sogecable, which is backed by Canal Plus, the French TV group, is due to begin testing digital services later this month using the Astra satellite system, prior to broadcasting 20 channels in January.

Telefónica, which is due to be fully privatised early next year, said last week that it would lead a consortium that would launch a rival digital TV network in March using Spain's Hispasat satellite, which it part owns.

Both Telefónica and Sogecable said yesterday that satellite systems had replaced cabling as their broadcasting priority. They said the development of the Cablevisión was on hold pending a final decision later this month.

● Tubacex, the Spanish stainless steel company, posted group net profits of Pta2.508bn in the nine months to September 30, up 131 per cent from a year earlier. Cash flow rose 64 per cent to Pta3.358bn in the period.

Tubacex said these figures showed the company was on the road to obtaining the best results in its history.

Sales fell 6 per cent to Pta20.19bn in the period, which Tubacex said represented the decline in sales of certain stainless steel products by Aceralava, which provides the raw material for its subsidiary Tubacex Tubos Inoxidables.

EUROPEAN NEWS DIGEST

Ahold to buy 50% of Brazil retailer

Ahold, the Netherlands' biggest supermarket chain, is to begin operations in South America by buying 50 per cent of the retailing and consumer credit subsidiary of Bompreço, Brazil's fourth-largest food retailer. Bompreço has 50 stores with 10,000 employees and annual turnover of some $1.4bn.

The two companies said the move was part of a strategic alliance in which they would jointly develop food outlets in north and north-east Brazil. This would include acquiring other supermarket chains. No value was disclosed on the deal, which Ahold said would be financed with available funds and not dilute earnings.

Mr Frits Ahlqvist, an Ahold director, said the purchase "provides a flying start for Ahold in Latin America". Bompreço, based in Recife, was founded in 1935 and has more than 1.3m sq ft of selling space, from hypermarkets to convenience stores. It has just raised $74.3m through an international placing of preference shares.

Gordon Cramb, Amsterdam

Framatome row mounts

French opposition to a proposed merger that would give General Electric Company of the UK a stake in France's flagship nuclear industry mounted yesterday. The opposition Socialist party came out against the proposed deal which it said threatened France's ability to pursue an independent energy policy.

Last week Mr Jean-Claude Leny, chairman of Framatome, the French nuclear plant and fuel manufacturer, attacked the proposed merger between Framatome and the GEC Alsthom power engineering and transport equipment group, saying it could harm co-operation with Germany on the replacement of Europe's existing nuclear power stations.

David Owen, Paris

Swedish Match down 12%

Swedish Match yesterday posted net profits down 12 per cent, from SKr853m to SKr715m ($109m), for the first nine months. Operating profits fell from SKr1.29bn to SKr1.1bn on sales down from SKr5.53bn to SKr5.43bn. Pre-tax profits, before minorities, fell from SKr1.22bn to SKr1.03bn. The shares rose 10 ore to close at SKr19.60.

The company said the stronger krona cut sales by around SKr350m.

AFX News, Stockholm

Prominent targets Asia

Prominent of Germany, a world leader in specialist pumps for the chemical, water and food industries, is planning a series of investments in the Pacific Rim. Mr Viktor Dulger, chairman and owner of the company, said the company was ready to spend about DM28m ($18.5m) in investments in plants and sales offices in the region over the next decade.

Prominent is unusual among Germany's manufacturers in the importance it places on sales outside its home territory, which accounts for only about 40 per cent of its current revenues of DM240m this year.

Of the planned DM28m investment in eastern Asia in the next 10 years – which would double Prominent's spending there since the late 1980s – Mr Dulger said he envisaged spending DM10m on building up business in China, where Prominent has had a factory since 1994. Besides its main manufacturing centre in Heidelberg, the company has plants in Malta, the Czech Republic and India as well as in China.

Peter Marsh, Hanover

VW resignation 'untrue'

Volkswagen denied a report in German news magazine Der Spiegel that Mr Martin Posth, the board member responsible for the car manufacturer's Asia business, was to resign. "It is completely untrue," the company said, adding that Mr Posth had no intention of not renewing his contract, which ran until 1998.

AFX News, Frankfurt

RPR drug study 'promising'

A study of Rhône-Poulenc Rorer's new anti-cancer agent Taxotere in combination with cisplatin, another anti-cancer treatment, has shown the combination is promising, said the company. Side effects were predictable and manageable, said the Franco-American company.

The early clinical studies group of the European Organisation for Research and Treatment of Cancer (EORTC) released the results of the phase-three trials in a paper delivered yesterday to the 21st European Society of Medical Oncology Congress in Vienna. The combination demonstrated a 55 per cent response rate in patients with cell carcinoma of the head and neck. EORTC said: "Based on the findings, this promising combination therapy of Taxotere with cisplatin will soon be compared with standard chemotherapy in a large scale phase-three trial in patients with locally advanced disease."

The conference was also told a drug being developed under licence by Rhône-Poulenc Rorer had been found to control the progression of colorectal cancer in about 50 per cent of patients resistant to the standard treatment. RPR, which is developing the drug under licence from Japan's Yakult Honsha, said the drug was the first therapeutic innovation in colorectal cancer in 40 years.

AFX News, New York

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

Claas profits ahead sharply on strong demand

By Peter Marsh in Hanover

Good harvesting weather, high grain prices and buoyant demand has led to a sharp rise in profits at Claas, the privately-owned German company which is Europe's biggest maker of combine harvesters.

Pre-tax profits are provisionally estimated at DM90m-DM100m ($59m-$66m) for the year to end-September, a rise of 12-20 per cent compared with last year's DM80m.

Sales are up by a provisionally calculated 16 per cent, from DM1.26bn to about DM1.46bn, according to Mr Eckart Kottkamp, chief executive of the Harsewinkel-based company.

Mr Kottkamp, who took over in April from being chief executive at Jungheinrich, the German lift truck company, said profits and sales were likely to rise further in 1997. "It looks as though the market will stay at an attractive level," he said.

Mr Kottkamp gave his estimates for the 1995-1996 figures in an exclusive interview with the Financial Times. Fully audited figures for the year will be disclosed in February.

Claas, which is still owned by the family of the three Claas brothers who set it up in 1913, has an estimated 30 per cent share of the market for combine harvesters in Europe. New Holland, its nearest rival, which is owned by Fiat, has a market share of about 20 per cent.

Combine harvesters account for about 40 per cent of Claas's sales, with virtually all the rest accounted for by other farm equipment such as foraging harvesters and baling machines.

The company, which bases virtually all its manufacturing in Germany where most of its 4,800 workers are employed, has taken strides in the past year to increase the flexibility of its workforce.

It has cut costs through a policy of hiring workers on temporary contracts to meet peaks in demand and by outsourcing more of its production to sub-contractors.

Its workforce at its main factory in Harsewinkel was increased from 1,000 to 1,300 in the spring through the use of 300 staff on short-term contracts, in a step needed to meet a sudden surge in demand and which was agreed with local union representatives.

Mr Kottkamp said trade unions were beginning to show realism by agreeing to policies of this kind to help to make German manufacturing more competitive.

He said that in the coming year demand was likely to stay high, helped by renewed confidence among farmers and by a new range of combine harvesters produced by Claas which had cost about DM45m to develop and which were about to go on sale.

Of Claas's total sales, 90 per cent come from Europe, with the former communist states of Poland, Hungary, the Czech Republic and Slovakia all showing a large growth in demand in the past year.

Banks stand out among Cairo's privatisation candidates

Deregulation has led international investors to take a closer look at the sector, writes Sean Evers

Egypt's privatisation programme entered a new phase last week when the government announced the privatisation of 91 companies, scheduled to be sold by June 1998.

A large number of leading pnblic sector companies have already gone under the hammer. However, banking – currently in the process of deregulation – may prove the most attractive sector of the Egyptian market for international investors.

There are currently only s handful of banking stocks available on the Cairo bourse, even though Egypt boasts about 25 banks.

However, Mr Achmed El-Helw, vice-president of EFG-Hermes Financial, the Cairo-based investment bank, says he expects that "close to 20 banks [will be] activsly traded on the Egyptian Stock Exchange by the end of 1997."

Mr El-Helw believes these stocks should prove attractive. "Over this period the average price/earnings ratio for this sector shonld increase to 11 or 12 from its present ratio of 9."

There are two reasons for such optimism. The first is deregulation. Before 1991, the banking sector was highly regulated by the Central Bank of Egypt. Subsequently, however, interest rates, fees and commissions, and the exchange rate have been liberalised, and banks are now free to set their own prices.

The second reason is increased foreign interest in the sector. In June this year the Egyptian government passed a law allowing foreign investors to take majority stakes or even acquire full ownership of local banks.

The government has also issned a quasi-directive "encouraging" the four public sector banks – National Bank of Egypt, Banque Misr, Banque du Caire and Bank of Alexandria – to relinquish majority control in more than s dozen private banks in which they hold at least 51 per cent.

Some foreign banks have already mads their movs. Société Générale, of France, recently becams the first foreign financial institution to acquire a majority stake in an Egyptian bank, when it raised its holding in ths Egyptian joint venture National Société Générale to 51 per cent.

Crédit Commercial ds France's holding in Crédit d'Egypte International will rise to 51 per cent once it completes its purchase of s 16 per cent stake from the National Bank of Egypt. Banque National de Paris and Barclays Bank of the UK intend to taks majority stakes in their respectivs joint ventures with Banque du Caire.

Mr Sharriff Raafat, vice-president of Concord International Investments, the New York-based fund managers, welcomes these developmsnts. "It will bring much-needed compstition and know-how from foreign partners as commsrcial banks jockey for market share".

However, questione remain about Egyptian banks' profitability. The four state-owned banks dominate the sector, but private commercial banks are the most profitable. Together they account for more than 75 per cent of capital reserves, distribute more than 75 per cent of loans and collect sbout 90 per cent of available deposits in the country.

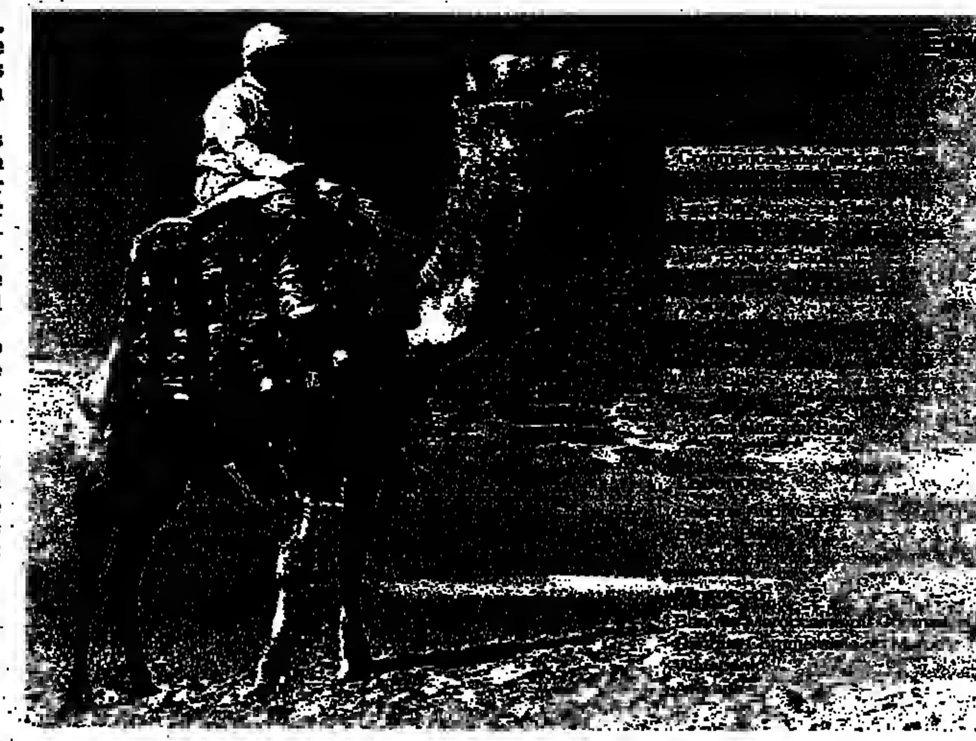
Commercial International Bank, with a market capitalisation of E£2.37bn ($697m), is by far the biggest of the six banks actively traded on the ESE. Although CIB has been one of the best-performing banks over recent years, it is now suffering pressure on margins, and both HSBC and Concord are recommending a hold on its stock.

Mr Albert Momdjian, head of HSBC's Middle East and North Africa desk, believes MIBank and Misr Exterior, two other listed banks, "have much better growth prospects than CIB, because they have a much lower loan-to-deposits ratio than CIB's 95 per cent."

HSBC James Capel has recommended NSG Bank, even though it is among the smaller banks. It claims NSG is "well on its way to becoming a strong" financial institution. On the basis of last year's figures, its ratio of price to net asset value is 2.1 – well below the sector average. HSBC gives the group s prospective price earnings multiple for this year of 5.9 – again, well below sverage.

Although intense competition in the banking sector means revenues are being squeezed, HSBC Capel does not believe the market is overbanked – growth potential is strong if funds are used optimally.

And as deregulation attracts foreign interest and forces domestic banks to become more markst-oriented, the sector looks set to be one of the strongest performers in the coming months.



[illegible] banks and their regional rivals

	Market cap $m	Price/ net asset value	Price/ earnings ratio (1996)	Return on equity (%)	Return on assets (%)
[illegible]	[illegible]	2.8	16.2	25.5	2.72
[illegible]	413	3.6	11.0	24.5	1.12
[illegible]	[illegible]	3.3	12.5	[illegible]	2.27
[illegible]	132	2.7	7.2	29.3	1.61
[illegible]	[illegible]	2.3	6.9	[illegible]	[illegible]
[illegible]	70	2.7	6.0	35.6	2.13
[illegible]	N/A	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	1.9	12.8	14.5	0.96
[illegible]	128	1.2	9.7	12.0	1.24
[illegible]	[illegible]	1.9	13.6	13.6	0.84
[illegible]	N/A	1.7	12.0	13.4	0.98
[illegible]	[illegible]	1.9	[illegible]	14.7	0.95
[illegible]	116	2.2	8.6	20.0	1.41
[illegible]	N/A	[illegible]	10.7	17.3	[illegible]
[illegible]	583	1.8	16.6	10.6	0.90
[illegible]	833	3.4	15.1	16.0	1.58
[illegible]	477	1.4	12.4	12.9	1.04
[illegible]		2.2	14.7	13.2	1.17

Source: Annual reports; Jordan Investment & Finance; Lebanon-Invest; Reuters *1994

SGL upbeat as profits rise 35% over nine months

By Sarah Althaus in Frankfurt

SGL Carbon, the world's biggest graphite and carbon products group, said yesterday it was confident about long-term earnings growth after registering s 35 per cent improvement in pre-tax profits to DM223m ($147m) in the first nine months.

"We see no reason to lessen our optimism for a favourable long-term trend in earnings growth," said Mr Robert Koehler, chairman. He added that the German group would "without a shadow of doubt" increase its dividend this year, from DM1.67 last time.

Operating profits rose 24 per cent to DM231m in the nine months and earnings per share increased from DM5.27 to DM6.73. However, third-quarter operating profit rose only 4.4 per cent to DM71m and was down from profits of about DM80m in the first and second quarters.

"Weaker economic conditions, lower orders over the summer months, and an unexpected slump in the steel industry led to slightly weaker third-quarter results, but we expect the fourth quarter to be better," Mr Koehler said.

The shares closed DM0.90 lower at DM170.10 amid disappointment over the slowdown in earnings growth from the first half, when pre-tax profits climbed 51 per cent.

However, Mr Michael Hagmann, analyst at UBS, said the fall in the share price – from a high of DM190 earlier this year – had been overdone and he expected an upward correction over the next few months. "It wasn't a surprise that growth had slowed in the latest quarter and prospects for the medium term are pretty favourable."

Turnover – up almost 10 per cent at DM1.28bn – was boosted by price increases and the first-time consolidation of recent acquisitions, including Polgraph, of Poland, and Vicarb, of France.

Excluding acquisitions, turnover was flat at the year-earlier level. The operating margin rose from 16 per cent to 18 per cent.

Carbon and graphites, the group's biggest division, lifted operating profits 11 per cent to DM184m, on an 8 per cent increase in sales to DM822m. Operating profits in the speciality graphite division increased 28 per cent to DM37m and in engineered products by 36 per cent to DM20m.

SGL Carbon went public last year when Hoechst, the German chemicals group, floated off a 50 per cent stake, in one of Germany's largest share offerings.

Hoechst sold its remaining 50 per cent interest earlier this year, with about 40 per cent of the $1bn offering issued to US investors through the New York Stock Exchange. SGL Carbon is only the second German company, after Daimler-Benz, to list in New York.

El Al sees first loss for 10 years

By Avi Machlis in Jerusalem

El Al, Israel's national airline, confirmed it expected losses of $100m this year, s development seen as a setback for the Israeli government's plans to privatise the company.

El Al's losses – the first for 10 years – were blamed in part on a sharp decline in tourism during the year, following a spate of Islamic suicide bombings in Israel eight months ago. The fall in tourism receipts will account for nearly one-third of the forecast losses. El Al had profits of $15m on revenues of $1.2bn in 1995.

The company said increased fuel prices and a strong shekel against the US dollar also contributed to the losses. El Al also blamed the government's "open skies" programme – opening up Israel to more airlines – claiming it had brought down fares but without corresponding growth in tourist numbers.

The loss warning could not have come at a worse time for the government, which has been committed to privatising the company since 1994, but has been beset by political obstacles.

Mr Rafi Harlev, El Al's former president, resigned earlier this year in protest at the slow pace of privatisation.

Mr Yoel Feldshuh, his successor, is also a supporter of privatisation. Last week he said: "The only airlines around the world which are still losing money are those which have not been privatised."

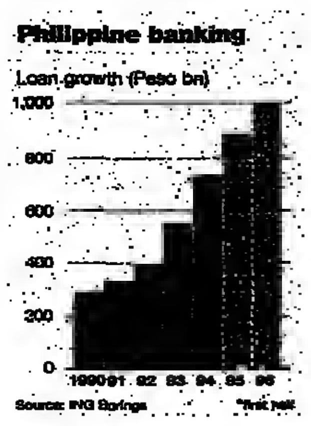
Even if the company manages to return to the black, analysts believe privatisation would still be plagued with difficulties. Mr Zvi Schechter, managing director of Giza Investment banking, which had been involved with the government's broader privatisation programme, said the sell-off had been stalled in 1995 because the government felt El Al had been undervalued by underwriters.

To complicate matters, the airline maintains a ban on flights on Saturdays – the Jewish Sabbath – and Jewish holidays. This costs it an estimated $48m a year. The Sabbath ban is unlikely to change since Mr Yitzhak Levy, the new minister of transport who must approve the sale of El Al, is an orthodox Jew who objects to lifting the ban.

The transport ministry said a public flotation of El Al was the preferred method of sale.

Philippine banks ahead midway

By Edward Luce in Manila



Rapid loan growth and a buoyant economy raised total net profits in the Philippine commercial banking sector by 31 per cent to 46bn pesos (US$1.75bn) in the first half of 1996, according to a central bank report.

The sector's performance – the fourth consecutive year of profits growth exceeding 30 per cent – was driven mainly by loan interest income, which grew by 38 per cent to 32bn pesos. Net interest income accounted for 90 per cent of total assets of 1,800bn pesos in the Philippine commercial banking sector's 51 banks.

Analysts say the sector's rapid growth, which has seen total loans rise by almost 500 per cent since 1990 to 1,003bn pesos, is almost certain to slow in the next two years. Loan growth of more than 30 per cent a year has not been matched by an equivalent rise in deposits, which grew 12 per cent in the first half.

Most of the capital for the new loans in the last year has been raised through rights issues and overseas dollar borrowing. The report said cheap capital from fresh equity would be more tightly limited in future.

"There are fairly manifest reasons to be cautious about the sustainability of the banking sector's recent performance," said Mr Chris Hunt, chief researcher at W.I. Carr in Manila. "The loan:deposit ratio is approaching 100 per cent, which is a good signal for a slowdown in loan growth."

Brokers, however, say that with an average capital reserve ratio of 15 per cent, the Philippine banking sector remains in a healthy position. Exposure to the vulnerable property sector remains below 10 per cent of the average loan portfolio.

But increased competition from foreign banks – 10 were given full domestic licences in 1995 – is expected to squeeze profit margins and further narrow interest rate spreads between domestic lending and borrowing. Government plans to issue a further 10 licences to foreign banks in the next 18 months are expected to tighten margins in the lucrative corporate lending sector.

"There is still a lot of room for more operating efficiencies in Philippine domestic banking and there will almost certainly be further mergers and consolidations as foreign competition intensifies," said one banking analyst. With an average p/e ratio of 18.5, listed Philippine banks are trading at about the same multiple as the Philippine composite index.

Earnings slide 14.8% at CLP

By Louisa Lucas in Hong Kong

China Light and Power, Hong Kong's dominant electricity supplier, yesterday reported a fall of 14.8 per cent in net earnings, from HK$5.67bn to HK$4.84bn (US$626m), for the year to September 30.

The results were slightly lower than market expectations. Stripping out the previous year's exceptional gain of HK$1.29bn on the sale of a development site, earnings rose 10.2 per cent, from $4.39bn to $4.84bn.

The company has also cut capital expenditure projections for 1992-99, from HK$60bn to HK$50bn. For the same period, CLP plans to reduce operating expenditure by HK$3bn, by lifting productivity.

Sales of electricity to the manufacturing sector, much of which has migrated towards cheaper land and labour costs in China, fell 4.2 per cent over the year, but overall local unit sales grew 4.3 per cent, to 22.32bn units.

Export sales slumped 70 per cent, to 520m units, as demand from the neighbouring Guangdong province dried up. Sir Sidney Gordon, chairman, said: "10 per cent of our load was going there three or four years ago, but now we are selling practically nil because they have sufficient supply for their needs."

CLP also announced progress in overseas power deals. It is arranging financing for a 3,220MW power plant in China's Shandong province. Talks with international export credit agencies are under way, but the task has been made harder by the lack of guarantees from the Bank of China group.

The Indian joint venture with Cogentrix Energy of the US has moved ahead, with the Indian government approving in principle a counter-guarantee to support Karnataka state's obligations. In Taiwan, CLP has exercised its option on a 30 per cent stake in the 1,320MW Hoping project near Hualien.

Earnings per share for the year fell from $2.85 to $2.42. Excluding the previous year's exceptional item, earnings per share were up 10.2 per cent from $2.20.

Email profit hit by restructuring

By Nikki Tait

Email, the Australian appliance and building products group, reported a 10.4 per cent fall in first-half net profits to A$23.9m (US$18.9m) and said economic conditions remained uncertain.

The result, for the six months to end-September, compared with A$27.3m a year earlier. The fall was due in part to a A$3.4m abnormal charge, compared with a A$1.77m surplus last year, related to group restructuring. Interest charges also rose, from A$16.9m previously to A$20.4m, as a result of the acquisition of Atlas Steel last November.

Sales, including Atlas, rose 7.5 per cent to A$1.1bn. There were stronger results from metals, major appliances and building products, but industrial products earnings were hit by lower demand for air conditioning and heating products caused by a cool summer and a slump in housing. Government spending cuts and uncertainty over the deregulation of utilities also affected storage systems and metering equipment.

Email, the market leader in the major appliance sector and something of a bellwether for Australian manufacturing, said the "environment for industrial activities remains difficult. Recent economic forecasts have deferred the timing of an upturn in economic drivers relevant to Email."

But it added that restructuring should help lift pre-tax profits and that second-half profits should be "well ahead" of the first half.

● David Jones, one of Australia's two big department store groups, added to the gloom yesterday when it announced sales in the first quarter of its 1996-97 year were 2.9 per cent lower year-on-year at A$310.5m.

"Low levels of consumer confidence and concerns about job security have had a depressing impact on consumer spending," it said.

● Coles Myer, the country's biggest retailer, lifted first-quarter sales by 5.6 per cent to A$4.44bn, which outstripped inflation but was lower than the company has been recording in recent quarters.

Packer's PBL prepared to lift Fairfax stake

By Nikki Tait in Sydney

Mr Brian Powers, chairman of Mr Kerry Packer's Publishing and Broadcasting (PBL) media group, yesterday confirmed that the quoted company was still interested in raising its stake in John Fairfax, Australia's leading newspaper publisher.

"In July we increased our interest in John Fairfax to 14.9 per cent, the limit permitted under relevant cross-media regulations," he told PBL shareholders at yesterday's annual meeting.

"Our goal continues to be to increase our ownership in Fairfax, subject to a relaxation of the cross-media laws and to any transaction being in the best interests of shareholders."

Mr Powers' remarks follow speculation among brokers and analysts that Mr Packer's declared interest in owning Fairfax might be waning. Because of his ownership of Channel Nine, the leading Australian commercial TV network, Mr Packer cannot currently own more than 15 per cent of Fairfax. Mr Conrad Black, the Canadian media proprietor, who owns 25 per cent, is also barred from going higher by foreign investment constraints on media assets.

However, the government is currently reviewing these rules – although by way of a discussion paper rather than a full public inquiry.

Yesterday, Mr Powers also said PBL expected to post improved pre-interest profits in the current financial year, to end-June 1997. He said TV ratings had been "excellent" in the opening months, but conceded that "the advertising market has yet to regain any real vitality".

Despite the forecast, Mr Powers said the "quantum of this increase is impossible to predict at this stage". Last year, PBL – in which Mr Packer's private Consolidated Press holds a controlling stake – made an operating profit of A$313.6m (US$248m) and an after-tax profit of A$228m. Interest charges were A$61.6m.

Meanwhile, there were wry smiles when it fell to Mr James Packer, the 29-year-old son of Australia's richest man and now managing director, to handle his father's re-election to the board.

Happily, no shareholders felt inclined to vote against the motion.


Kerry Packer: currently limited to 15 per cent of Fairfax

ITC to refocus after scandal

BAT looks for working relationship after battle with Chugh

Standing impassively in the caged dock of a Calcutta court on Friday, Mr K.L. Chugh, former chairman of the ITC tobacco conglomerate, must have wondered whether he could continue to blame BAT of the UK for his predicament.

Since BAT, which owns 32 per cent of ITC, moved to oust Mr Chugh last year, he has sought to portray it as a predatory multinational inclined to interference in ITC's affairs. BAT was "out to destroy the company as well as the country," he said at the time of his arrest last week.

Yet with six past and present ITC officials, including two former chairmen, now under arrest in connection with offences against India's foreign exchange control regulations, BAT's initial suspicions of irregularity seem to have been right. Without any help from its UK sponsor, ITC is enmeshed in one of India's biggest ever corporate scandals.

ITC executives say they expect the affair to culminate in sweeping board changes designed to limit the power of the chairman and restore the credibility of management.

Finance Ministry officials say ITC siphoned at least $100m offshore by falsifying invoices for exports and imports. This allowed it to keep secret accounts abroad with the help of an expatriate Indian family. Only as ITC's relations with the expatriste family soured in recent years did the illicit dealings come to light.

India's exchange controls are no longer as strict as they were in the 1980s, when the ITC malpractice is alleged to have started. But executives from other companies say they so inhibited business there was a natural temptation to seek ways round them.

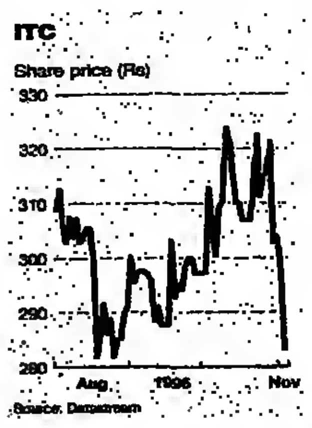
Similarly, many companies were steered, like ITC, into ill-conceived diversification during the so-called "licence raj", when government permits were required for new activities. "We had no option," says Mr B.K. Birla, the veteran industrialist whose group is also trying to narrow its focus.

But if ITC is a victim of the times, that still leaves the questions of how far the offshore accounts were run for the personal benefit of individuals and why BAT, together with ITC's Indian government institutional shareholders, failed to notice something was wrong.

Analysts say the 8 per cent fall in ITC's share price since the arrests reflects concern that the affair may leave a hole in its balance sheet, but the problem is one, above all, of corporate governance.

In spite of a special audit last year, ITC executives are not sure how much money was siphoned offshore and for whom. Even if some is irrecoverable, it was never officially declared as profit. The company may be heavily fined but with reserves of Rs8.8bn ($247m) it is strong financially. It generated net cash of Rs2.4bn last year in spite of paying a Rs1.7bn claim for back excise duty.

BAT failed to act because it was little more than a sleeping partner during the licence raj. Its strategic interest grew only as the potential of India's tobacco market became apparent.



By then, its passivity had allowed successive chairmen to become all powerful. They behaved "like owners," said one executive. Among the expected boardroom changes is the separation of the role of chairman and chief executive, a move taken about four years ago by BAT itself.

With a new board and a more focused approach, ITC will have met many of the concerns expressed by BAT during its battle with Mr Chugh. Mr Chugh's departure was a pyrrhic victory for BAT because his close relations with the Indian government institutional shareholders, which own 38 per cent, secured the appointment of his protegé, Mr Y.C. Deveshwar, to succeed him.

Mr Deveshwar will be questioned again by enforcement agency officials today. Though he has not been implicated in the violation of exchange controls, he was a director for much of the period during which they are alleged to have taken place.

BAT is expected to seek new board appointments from outside the company, and may want to put one of its own executives in as finance director.

Bruised by its battle with Mr Chugh, it is being careful to work with the institutions. A BAT delegation is travelling to Bombay this week to talk to them.

"What we are about is trying to achieve a normal working relationship with ITC," said Mr Michael Prideaux, BAT's head of communications, in London. "Control has hardly ever been on the agenda, although it is plausible we might increase our stake."

ITC is meanwhile proceeding with plans to refocus its activities. ConAgra has signed an agreement to enter its edible oil business and most expect the US company to take eventual control.

The company is looking for new partners that might ultimately take over its interests in hotels, as well as paper and board. After a restructuring which should be largely complete by next year, ITC would be left, like BAT, focused on tobacco and financial services.

ITC insiders believe BAT will be happy with that, especially if it frees ITC to concentrate on the fast growing competition in the Indian tobacco market from other multinationals.

Peter Montagnon and Kunal Bose

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 05.11.96 / Final Prices for Trading on 03.10.96

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	13.48	9.08	9.08
0100	12.22	9.08	9.08
0130	12.22	9.07	9.07
0200	12.22	9.08	9.08
0230	11.68	9.08	9.08
0300	11.67	9.08	9.08
0330	11.67	9.08	9.08
0400	11.47	9.08	9.08
0430	11.66	9.08	9.08
0500	11.64	9.08	9.08
0530	11.64	9.09	9.09
0600	11.88	9.09	9.09
0630	11.89	14.74	14.74
0700	13.00	14.88	14.83
0730	16.77	19.84	19.98
0800	16.77	19.95	25.69
0830	16.83	64.09	66.09
0900	16.93	66.00	70.37
0930	17.57	42.29	46.59
1000	26.93	42.44	46.77
1030	17.57	41.75	45.95
1100	17.57	41.31	45.44
1130	25.93	42.11	46.40
1200	27.98	42.97	47.40
1230	27.98	41.77	45.93
1300	17.57	20.82	24.71
1330	25.93	18.60	21.82
1400	16.98	18.01	21.22
1430	16.98	17.54	20.64
1500	16.98	17.28	20.34
1530	12.02	17.45	20.54
1600	12.16	18.54	21.89
1630	30.32	21.15	25.05
1700	63.17	47.58	51.85
1730	117.88	47.80	51.80
1800	112.78	45.98	49.90
1830	48.11	48.85	54.67
1900	27.08	80.34	88.19
1930	20.99	88.99	96.79
2000	27.02	80.18	86.85
2030	19.06	48.36	50.70
2100	18.25	18.54	21.89
2130	17.35	16.69	19.54
2200	16.77	16.15	18.82
2230	16.77	16.06	18.81
2300	16.77	16.06	18.81
2330	16.77	14.78	14.78
2400	13.61	14.77	14.77

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £10.00/MWh becomes 1.000p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.

©Energy Settlements and Information Services Limited

William Resources in bid for Terra

By Kenneth Gooding, Mining Correspondent

William Resourcee, of Canada, has mada a SKr716.1m ($108.75m) offer has been made for Terra Mining, owner of western Europe's biggest gold mine, the Bjorkdal mine 820km south of the Arctic circle in Sweden. The rapidly growing Canadian company started the year with no gold production but now has four operating mines.

The Terra board is recommending the offer and Norsk Hydro, which floated Terra on the Swedish exchange in 1993, is accepting in respect of the 42.3 per cent of Terra it still owns. Norsk said that, if the offer succeeded, it would realise a pre-tax gain of more than SKr200m. The sale was in line with its strategy of focusing on core activities.

Terra said on October 15 it was in talks that might lead to a merger. William, which is quoted on the Toronto and Australian stock exchanges, said its offer of SKr162.50 a share represented a 23 per cent premium on Terra's price on November 1.

The offer is conditional on William obtaining acceptances from holders of more than 90 per cent of Terra's shares. William said a syndicate led by Nesbitt Burns and ScotiaMcLeod would underwrite the issue of C$85m (US$63m) of convertible debentures to fund some of the acquisition cost. It was in final negotiations with Gerald Metals and a banking syndicate for a loan facility of up to US$75m to fund the balance.

Terra produced 71,292 troy ounces of gold at the Bjorkdal mine last year and expects this to rise to about 87,000 ounces this year. Its new Pahtavaara mine in Finland started up recently and should produce 10,000-15,000 ounces this year. Next year it should reach full annual capacity of 30,000 ounces.

William has been expanding via acquisitions. In March it paid C$50m for Valdora Minerals, an Australian company that owns the Rustlers Roost gold mine in the Northern Territories and the Ballarat East mine in Victoria, where production began last week.

In July, William acquired tha Jacobina gold mine in Bahia State, Brazil, from Anglo American Corporation, of South Africa, and Banque Paribas for US$16.4m and a 6 per cent net profits interest royalty. William also owns the Velardeña gold mine in Durango, Mexico, which began production in May.

It also has several gold projects in Russia and Uzbekistan.

Westinghouse Electric narrows losses

Westinghouse Electric reported third-quarter net losses of $28m, an improvement on the $52m loss a year ago, on revenues of $2.04bn against $1.28bn, reports AFX News in New York. The result, equivalent to earnings per share of zero, against 4 cents in the year-ago quarter, was in line with analysts' forecasts.

CBS, the company's broadcasting group, reported earnings before interest, taxes, depreciation, and amortisation (Ebitda) of $149m, compared with $53m in the year-ago quarter. Third-quarter sales were $910m, compared with $166m.

Excluding the benefit from purchase price accounting, Ebitda for the broadcast group fell 12 per cent from last year, the company said.

Mr Michael Jordan, Westinghouse chairman, said that while results from its television stations declined due to lower ratings and affiliation switches, "considerabla" progress was being made in reducing costs and strengthening the performance of stations in leading markets.

Westinghouse's radio business posted a 14 per cent rise in sales in the quarter, outpacing the market.

Mr Jordan said the company was pleased with the launch of its new prime-time season. "CBS has increased viewership among households and has grown target demographics. This improved network performance, our increased focus on station operations and cost-reduction programs will drive stronger results at the TV stations.

"Our radio stations continue to far exceed our expectations, both in revenue growth and profitability. We expect to build on this performance as we look forward to our merger with Infinity Broadcasting."

Sales in the industries and technology division were up slightly, while operating profits were down.

In power systems, which accounts for about two-thirds of group revenues, about $800m in new orders were received in the quarter. Revenues increased significantly, but profits were equal to last year, due to changes in the sales mix and lower prices in the equipment backlog. However, profitability for the year is likely to be below expectations, Mr Jordan said.

NationsBank and First Union may shift focus

By John Authers in New York

NationsBank and First Union, the two US commercial banks whose acquisition sprees have turned Charlotte, North Carolina, into the nation's third-largest banking centre, could be shifting their strategies for further growth.

The two banks have spearheaded the swift consolidation of US commercial banking in recent years. Last year First Union bought First Fidelity, based in Newark, New Jersey, for $5.4bn, and it now has branches in 12 states.

NationsBank eurprised Wall Street in August with its $9.5bn acquisition of Boatmen's Bancshares in St Louis. Ths deal will make it the nation's fourth largest bank, behind Chase Manhattan, Citibank and BankAmerica.

But both banks last week told analysts they would be changing their focus in the next few years.

First Union announced it would now aim for a return on common equity of 18 to 20 per cent, up from the present target of 16 per cent. Investment in technology is meant to improve efficiency in retail banking.

But growth in shareholder value is to come from the bank's fee-based businesses, such as investment banking and asset management.

By 2000, according to Mr Edward Crutchfield, chief executive officer, fee-based income will account for 40 per cent of revenues, up from the current 30 per cent.

First Union now has the third-largest mutual fund business of any bank, built by acquisitions. It intends to expand its fund management business from pre-tax income last year of $220m to $1.15bn in 2000. Its capital markets group, which concentrates on servicing small and medium-sized companies rather than competing directly with Wall Street, is also targeted for growth.

Mr Hugh McColl, chief executive of NationsBank, confirmed to analysts that his ambition remained to expand into California and become the first truly national bank.

However, Mr McColl appeared to suggest that expansion to the west coast might have to be via investment in technology and reaching customers electronically, rather than through a big acquisition. He pointed to the company's successful cost-cutting in its traditional branch network, with more than 100 offices sold or closed this year.

He also expressed an interest in buying a "small" investment banking firm "outside New York City" which would handle small and medium-sized businesses, in a strategy which appears similar to First Union's.

● Southern National and United Carolina, two North Carolina-based banks, announced yesterday that they were merging, in a deal which creates the 29th largest bank in the US, with assets of more than $25bn. The move was seen as defensive, to avert the possibility of takeover by a larger regional rival.

Conrail shares slip as suitors hold talks

Shares in Conrail fell $4¾ to $90¾ early yesterday after rival bidders for the fifth-biggest US railway company said they were in talks about their takeover offers, agencies report from New York.

CSX, which last month agreed an $8.1bn merger with Conrail, said it was holding talks with Norfolk Southern about a possible sale of some material assets after its proposed merger with Conrail.

Norfolk made a rival $8.8bn bid for Conrail two weeks ago, and filed a suit to try to stop the two railroad companies from merging.

Norfolk said the basis for its participation in the talks was "its commitment to provide strong competitive service in the east for rail customers".

"This is not a good time to be having a long, drawn-out fight," said Mr Anthony Hatch, an analyst at NatWest Securities. "The quicker they get to this, the better."

However, Norfolk said it remained committed to its $100 a share cash offer, and had secured more than $15bn to finance the acquisition.

CSX is offering $92.50 a share in cash for 40 per cent of Conrail's shares and 1.856 CSX shares for each of the remaining 60 per cent of the shares.

A merger between CSX and Conrail would create the world's biggest freight company with annual revenues of more than $14bn. The announcement of the merger followed a string of deals in the western US, with Union Pacific spending $3.9bn to take over Southern Pacific Rail, and Burlington Northern acquiring Santa Fe Pacific for $4bn last year.

CSX and Conrail indicated, when they announced their merger, that they would offer rights of access for some routes to Norfolk.

Argentina's energy groups seek wider opportunities

The country's oil and gas industry is well-placed for expansion

Argentina's oil and gas industry is in expansionary mood. Its companies, privately owned and with three years' experience of operating in a deregulated market, are uniquely placed to spread throughout the continent.

That, at least, is the view of Mr Santiago Soldati, chairman of Argentine energy-based conglomerate Comercial del Plata (SCP). He believes Argentine oil and gas groups – well managed and technically efficient – will take the lead in prising open opportunities in Latin countries whose hydrocarbon sectors are slowly emerging from decades of protection and monopoly.

"Sooner or later, Latin America is going to open up to foreign capital to increase production and competitiveness," he says. "The only companies that can enter these countries with the right know-how are Argentine."

The process has already begun. Perez Companc, Argentina's second-biggest hydrocarbons producer, has since 1994 been part of a joint venture to develop the Oritupano-Leona field in Venezuela, which has begun to open its oil sector to private capital. A marginal field in Venezuela often produces as much as a core holding in Argentina.

Last year, Perez bought a licence to explore the San Carlos field, also in Venezuela, which should add 60,000 barrels a day to the group's current output of 100,000 b/d. Perez is also drilling in Ecuador and is interested in investments in Bolivia and Colombia.

Astra, Argentina's fifth-biggest energy group, is making tentative moves abroad. The company, controlled since June by Repsol, the large Spanish energy group, has an operating contract in Venezuela's Quiamare-La Ceiba field. With Repsol's backing, Astra is expected to bid for much bigger blocs in forthcoming Venezuelan rounds.

SCP is also nibbling at Latin opportunities. It has one production and one exploration area in Ecuador, and a chain of Puma service stations in both Ecuador and Bolivia. It is also considering investments in Guatemala, El Salvador and Panama, according to Mr Soldati.

YPF, privatised in 1993 and Argentina's largest hydrocarbons group, has taken a different route to foreign expansion.

Hydrocarbons sectors across the continent are emerging from decades of protection

Last year it paid $750m for US-based multinational Maxus, giving it production stakes in Venezuela, Ecuador and Bolivia, in addition to resources in Texas, Indonesia and North Africa. Although purchase of the loss-making Maxus was criticised, YPF is showing strong signs of turning the company round.

Independently of Maxus, YPF has service stations in Chile and Peru, and recently acquired a stake in La Pampilla, Peru's biggest refinery.

It is largely through YPF's efforts that Argentina, which has boosted oil and gas reserves more than 50 per cent since 1990, is now a net exporter of hydrocarbons. In 1994, YPF built an oil pipeline to Chile, and will soon be exporting large quantities of gas to Chile through two separate pipelines.

YPF plans to participate in the construction of a gas pipeline from north-western Argentina to São Paulo in southern Brazil, a project that will radically change the energy map of South America. YPF, along with several other companies, is trying to establish sufficient reserves to make the project viable.

Argentine's potentially huge gas resources ensure it will play a crucial role in regional energy projects, says Mr Jay Bhutani, an energy analyst with Caspian. "We very much agree with Soldati. Latin America is going through a production boom in oil and gas," he says. "In gas, Argentina will be critical in developing infrastructure in the southern cone."

In oil, where Argentina's reserves are smaller, companies are beginning to think regionally. Argentine energy groups, many of them conglomerates with diversified holdings, can enter a market in several ways. Astra, for example, has gained a foothold in Brazil through its shipping interests, which should allow it to move into other areas as the potentially huge Brazilian energy market is deregulated.

"Argentine companies do have a definite advantage in oil and gas," says an analyst at Kleinwort Benson. "They know how to play the politics, they know the local culture and they know the geology."

However, Mr Frank McGann, Buenos Aires-based analyst with Merrill Lynch, believes the advantage of Argentine companies can be exaggerated.

"There's something to be said for Soldati's view," he says. "But on the other hand, a company like Comercial del Plata is very small. Having expertise is one thing, but what you really need is capital."

Mr Phokion Potamianos, also of Caspian, denies that Argentine companies are too small to compete, pointing to their success in bidding rounds in Venezuela, often as part of joint ventures.

In the case of Astra, through which Repsol intends to funnel $2bn in Latin investments over the next five years, capital is now much less of a problem. Perez is cash-rich, while YPF has more than enough muscle to compete, especially given its strategic alliance with Petrobras, Brazil's state-owned giant.

Besides, says Mr Bhutani, from an investor's point of view the relatively small size of Argentine groups is an advantage.

Investors wanting to profit from Venezuelan production growth could buy stock in BP, but BP's exposure to Venezuela represents only a fraction of its overall activity. On the other hand, investing in an Argentine company ensures a much bigger exposure.

"Perez will nearly double its reserves in Venezuela, so it's a very clean play into that country," he says.

David Pilling

What price a ticket to the Concert?

Tony Jackson rehearses the argument about how much BT's proposed cash and share offer will be worth to shareholders in MCI

Among the reams of paperwork on the BT-MCI merger, one essential figure is missing: the value of the offer to MCI's shareholders. This is understandable, given the complexity of the offer.

The starting point is simple enough. For each MCI share, BT is offering 5.4 of its own shares plus $6 in cash. Yesterday, after news of the deal had broken, BT shares closed at 373p, a rise of 22p.

At yesterday's exchange rate of $1.63 to the pound, this ought to value MCI at almost $39 a share. In fact, MCI's shares yesterday rose $¾ in early dealings to $31. So why the difference?

The biggest reason has to do with dividends. BT has declared a special one-off dividend of 35p net per share to existing shareholders, costing it £2.2bn. While the payment is not dependent on the deal going through, neither will it apply to the new shares being offered to pay for MCI.

BT's reasons for the payment are a touch vague. At present, it says, it is under-geared, with net debt equal to only 8 per cent of equity. It, therefore, wants to use debt to improve return to shareholders.

On the other hand, the gearing for the combined group is about to leap to 65 per cent. It is hard to resist the conclusion that BT is using the payment to improve the value of its own shares as currency for the deal. After all, more than 80 per cent of MCI's purchase price will be in paper rather than cash.

Whatever the reason, logic suggests the 35p should be knocked off the value of MCI. BT's supporters would argue differently. Financial theory, after all, suggests that borrowing money to pay a dividend should add nothing to a share value because the higher yield is precisely offset by the higher risk caused by extra gearing.

Therefore, it is argued, the rise in BT's share price does not reflect the special payment, nor BT's separate proposal to buy back 10 per cent of its shares. It results from the market's enthusiasm for the merger, and the extra growth and cost savings which it promises.

That is a red herring. Whatever the BT price on the day the deal is closed, the shares will be worth 35p more to its shareholders than they will be to MCI's. On the other hand, the closing date is at least a year away; so while the 35p payment is certain – being unconditional on the deal going through – it should be discounted to bring it to today's value.

The second element in the calculation is the annual dividend of almost 20p which BT has promised its shareholders for the current year. Again, that is not available to MCI shareholders. That figure, too, must be discounted to bring it to today's value.

Suppose, for the sake of argument, that the total of 55p in dividends should be discounted by 10 per cent. The result values BT shares for MCI shareholders at around 323p, suggesting an MCI price of around $34. MCI's market price stands around 10 per cent below that - a fair reflection of the risk that the deal will not go through, some analysts say.

That gap, however, raises a separate question. It is the business of arbitrageurs to exploit such differences: in this case, by selling BT shares and buying MCI. In this case, arbitrage may prove less rewarding, for various technical reasons. The most basic is that the deal will take at least a year to clear, and its success is not certain even then.

From the stock market's viewpoint, a further question is how far US investors will seek to dump MCI shares ahead of the deal's consummation. Many will have little interest in holding a British utility, and may be tempted to unload stock ahead of the rush when the deal is completed.

In addition, MCI will vanish from the basic US indices, such as the S&P500. This will cause selling by the US index funds, partly offset by UK index funds seeking to add to their weighting in BT in response to the 50 per cent increase in its shares in issue.

BT's supporters argue that US selling will not be so severe, given that MCI has traditionally paid only token dividends – 5 cents a share last year – because of its status as a growth stock. Now, they argue, MCI is maturing, and its holders will in any case look for more income. They will, therefore, welcome the chance to convert into BT, which will pay an annual dividend equivalent to nearly $2 per MCI share.

However, that argument cuts both ways. BT intends to raise its dividend after the merger by less than its earnings.

On that basis alone, the argument about the value of its offer has further to run.

■ THE PITFALLS
By Richard Waters

Deal may help MCI in local call market

Wall Street has taken a dim view of the effect that the next round of deregulation will have on the profitability of the US's telephone companies.

The stock prices of the local service monopolists, the Baby Bells, are down 20-25 per cent from their highs at the start of the year in anticipation of a price war. Until last week, MCI was down nearly as much.

British Telecommunications has placed a $20bn bet that this view is wrong.

Mr Bert Roberts, the MCI chairman who has made a career of attacking bigger, entrenched competitors, made it clear over the weekend that he considered the opening of the $100bn local market to competition as by far the biggest opportunity before his company. "This is an unparalleled bonanza," he said, adding that profit margins on local calling in the US were roughly twice what they are in the long-distance business.

Competition will undoubtedly change that: the MCI chairman himself suggested that rates could halve. Much depends, though, on how fast prices fall - and whether competition stimulates the overall communications services market to grow faster than it otherwise would.

The experience of competition in the US long-distance telephone market over the past decade provides some limited clues about what may happen. Calling rates have undoubtedly fallen (by as much as 70 per cent, says Mr Tim Price, who will run the MCI business in the US after the takeover by BT.) At the same time, the market has grown to support a large number of competitors, not the least of which is MCI, which has had one of the best-performing US stocks since the early 1980s.

Local competition, though, will be different. It will not be nimble upstarts like MCI fighting for market share, but a group of very large, well-capitalised companies – the combined cashflow of the Baby Bells and GTE, a local service provider, comes to $43bn, by Mr Roberts' calculation. That financial muscle, and a consensus among the participants that there will be room only for a small number of national communications companies promise a bloody fight.

MCI at least starts in a good position. Its main assets in the coming fight are its own local fibre-optic networks, which it says will be capable of reaching more than half of all US businesses - its main target market - by the end of March next year, as well as a history as an effective sales and marketing company.

If the merger with BT is completed, the company will also have extra financial backing for the coming battle.

Early comments by MCI executives suggest this will not change tha pace of investment in local telephone services. Mr Price adds, however, that the link with BT would reduce the dilntion to its earnings per share that MCI would otherwise face from stepping up the pace of its investments. Also, merging with a company which traditionally has had a less volatile share price would produce a more secure platform from which to finance the growth, he added.

■ THE COMPETITORS

The pressure mounts on rivals to react

Telecommunications groups and governments around the world moved quickly to reassess their strategies as they digested tha implications of the proposed merger between British Telecommnnications and MCI.

Reflecting this, France Télécom yesterday called in its bankers to discuss how it might strengthen its links with Sprint Communications, the US long-distance carrier in which Deutsche Telekom and France Télécom each hold a 10 per cent stake as part of their Global One alliance.

The BT/MCI deal pnts pressure on the German and French telecoms groups, both of which are heading towards privatisation, to strengthen their partnership, perhaps through cross-equity holdings.

France Télécom said yesterday this would be studied *as soon as the respective* values of the two companies had been established.

However both France Télécom and Deutsche Telekom emphasised that their Global One partnership with Sprint was structured differently from the BT/MCI deal and appeared to rule out a full merger.

Meanwhile, Mr Richard Brown, chief executive of Cable and Wireless, the UK telecommunications group, disagreed with the notion that megamergers would leave only a few survivors in the industry.

"I don't think the world is well served by five or six *telecoms companies. There* will be many and there will be rich expertise in various niche markets and capabilities and this is good. No one shoe fits all feet," he said in Singapore as be opened a C&W office.

His company was neither surprised nor "frightened" by the merger between BT and MCI.

Among the other reactions and comments yesterday:

● In Germany Deutsche Telekom said it was under no immediate pressure to review its own alliances following the BT/MCI deal.

Mr Ron Sommer, the chief executive who was heading across the Atlantic for roadshows, was said to be "relaxed" about the deal.

The company may have good reason, however, to play down the implications of the new global partnership. Already it is lugging around the world's second biggest corporate debt load – DM98bn – and it will be keen to avoid suggestions that this will increase just as it is seeking investors to buy its stock.

Howevar, the international telecoms industry is facing a wave of mergers and acquisitions and Deutsche Telekom may yet be forced to spend in order to keep up.

Deutsche Telekom emphasised that Global One was structured differently to Concert and that a full merger between tha three partners was not likely.

● In France, France Télécom said the BT/MCI deal was a "validation" of its own global strategy and an admission that the initial alliance between BT and MCI in 1994 under which BT paid $4bn for a 20 per cent stake in the US long-distance carrier, had failed.

The state-controlled operator, which is expected to be partially privatised next year, *argued that its Global* One alliance with Deutsche Telekom of Germany and Sprint of the US "went much further" than this early version of the Anglo-US alliance.

Whereas BT and MCI had tended to try to carve up the world among themselves, Global Ona had from the outset been an independent entity with its own business plan.

"It is not necessary to have 100 per cent of a partner to build a solid partnership," France Télécom added. "Sometimes megamergers work and sometimes they don't."

Private investors are expected to be given their first opportunity to invest in France Télécom next April in what is expected to be France's largest privatisation to date.

● in Japan there was no immediate comment on the BT/MCI deal but the move has generated interest because it is likely to have an impact on the course of future telecoms regulation.

The Japanese anthorities are making a final decision on whether or not to break up NTT, the country's dominant domestic telecoms operator, which is also the world's largest telecoms carrier.

NTT is prohibited from conducting international business, and has fought against moves to break it up saying that in the changing world of global telecommunications, it helps to be big.

Contributions from Michael Lindemann, Michiyo Nakamoto, David Owen, James Kynge and Paul Taylor.

■ THE MAIN MEN – By Alan Cane

Top structure shows exchange of cultures

With two executive chairmen, a chief executive and a chief operating officer, BT and MCI's Concert could seem to have a surfeit of conductors. And with two headquarters, one in London, the other in Washington, it might seem to have one podium too many.

But Sir Peter Bonfield, BT chief executive, left no doubt yesterday about who would be in charge of the new group: "A company has to have a leader, a chief executive, and that is me."

The basic management etructure of the new company is essentially settled. The top executives are in place and to a large extent the managers who report to them have been chosen.

Sir Peter has mada it clear that be wants MCI'e freewheeling culture to permeate BT's staider halls; "We have a powerful top management team" he told BT staff yesterday, "combining from BT and MCI some of the best talent in the telecommunications industry."

The proposed structure, however, begs many qnestions. Sir Iain Vallance, the patrician architect of the modern BT, and Mr Bert Roberts, MCI's master strategist, share the role of executive *chairman.*

Exectitive chairmen in companies with strong chief executives can be a recipe for disaster as the clash at Cable and Wireless between Lord Young of Graffham and Mr James Ross last year demonstrated. Two executive chairmen should ring some warning bells. What will they do and how will they work together?

Colleagues say there is a strong affinity between the two, quite different, men. Mr Vallance is cool and aloof with a mask of imperturbability which rarely slips. Mr Roberts is a feisty engineer with a broad enthusiasm for *all things technological* and a wide vision of his company's future.

He is not above teasing his Scottish colleague about his title. Discussing the company's joint venture Concert Communications this year, he quipped: "Sometime after we formed this alliance I've had to start calling my counterpart Sir Iain, whila he still calls me Bert."

It seems likely the two will be involved over the next year in lobbying governments end regulatory authorities in Brussels and the US to ensure Concert's smooth passage over the legislative hurdles. They will also be concerned with broader issoes including ways of strengthening the group's operations in the Asia-Pacific region.

They will not be involved in the day-to-day running of the company which is the sole preserve of Sir Peter. Both are of an age when retirement or a move to another job had seemed on the cards. However, Mr Roberts told a US audience this week that he intended to "die in office". Sir Iain, who bad been expected to move to a senior role in a major Scottish bank next year, is thought to have had his enthusiasm for telecoms revived by the excitements of the past few months.

Below ths board of directors and the office of the chief executive, where Sir Peter will work with Mr Gerald Taylor of MCI, who is well regarded for his ability to think through the implications of strategic moves, Concert will comprise five operating units.

Activities in the US, Mexico and Canada will be handled by MCI acting as an autonomous, wholly-owned subsidiary of the company led by Mr Timothy Price: "The ultimate go-getter, a powerhousa, the classical sales leader," a colleague enthused.

He is credited with the creation of some of MCI's best-known innovations, including the "Friends and Family" discount scheme, which earned MCI its first "Gold Edison" trade award, and "Proof Positive", which provided subscribers with written proof of their savings through using MCI.

The group's UK operations will be masterminded by Sir Peter. An engineer by training, he learned the electronics business working for Texas Instruments and was instrumental in the resurrection and eventual sale to Fujitsu of Japan of ICL, the UK compnter company. A workaholic with a relaxed management style he has a formidable reputation as a manager.

International operations will be the concern of Mr Alfred Mockett, currently head of *international* activities at BT. He has broad international experience and, a colleague said: "boundless energy. He is a dealmaker. He opens doors and does ths ground work."

It will be Mr Mockett's responsibility to integrate the new group's two salesforces outside the UK and Europe.

Mr Robert Brace, BT's chief financial officer moves to take responsibility for managing Concert's network of worldwide alliances and joint ventures. Formerly with Unipart and Black & Decker, he is a business rather than a telecoms specialist and is "one of the most popular people with our salespeople", a according to a fellow executive.

The fifth operating unit combines BT's eystems integration and outsourcing activities, called Syntegra, with MCI's operations resulting from its acquisition of the Systemhouse group. Systems integration is one of the fastest growing and potentially most profitable areas of information technology. It will be managed by Mr Scott Ross of MCI who is credited with combining the strategic thinking of a Bert Roberts with the chutzpah of a Timothy Price. He and Mr Price were *colleagues during* the introduction of Friends and Family and Proof Positive.

Among corporate staff executives, Mr Douglas Maine of MCI – regarded as an "ingenious thinker" – takes the role of chief financial operator while Mr Fred Briggs become chief technology officer. The developmental business – multimedia and wireless operations – are in the hands of the BT executives Mr Rupert Gavin and Mr Andy Green, currently a member of Sir Peter's thinktank.

The question of top salaries remains to be settled. There is a substantial gap between the rewards of offer at BT and at MCI for top executives, less in terms of salaries than in the stock options on offer as a reward for success. The new group has made it clear that the remuneration of BT's top peopla would have to be adjusted to reflect new responsibilities in running the enlarged group.

Who's pulling whose strings? Clockwise from top left: Iain Vallance, Peter Bonfield, Gerald Taylor and Bert Roberts

What they took home last year

	Salary £	Total salary + bonus + benefits £
BT directors*		
Sir Iain Vallance	[illegible]	[illegible]
Sir Peter Bonfield***	118,800	165,800
Robert Brace	[illegible]	[illegible]
MCI directors**		
Bert Roberts	[illegible]	[illegible]
Gerald Taylor	332,636	892,064
Timothy Price	[illegible]	[illegible]
Douglas Maine	164,700	350,900

*year ended March 31 1996 **year ended December 12 1995 *** 3 months only
Source: Company accounts

■ HOW THE DEAL WAS DONE – By John Gapper and Nicholas Denton

Bankers' financial gymnastics unite differing traditions

The proposed merger between BT and MCI was a paradox for the investment banks involved – principally the Lazard houses for MCI, and the US and UK branches of the Rothschild group. It was an idea that had fairly obvious industrial logic but required some financial ingenuity to bring about.

Because BT had had a 20 per cent stake in MCI since 1994, it did not require an inventive investment banker to suggest a merger.

However, tha devil lay in the detail of unifying two companies with different historias and widely varying shareholding traditions.

The principal investment bankers involved in negotiations from the autumn onwards were Mr Felix Rohatyn of Lazard Frères in New York, Mr John Nelson of Lazard Brothers in London, Mr Tony Alt of N.M. Rothschild & Sons in London and Mr Yves-Andre Istel of Rothschild Inc in Nsw York.

As a firm structure for the deal emerged in September, BT also hired Morgan Stanley in London to advise on likely reactions to it among shareholders. Morgan Stanley was involved despite its historic role in the US as adviser to AT&T, the main rival to MCI in the US telephone market.

The Morgan Stanley involvement was mainly led from its London office by Mr Michael Uva, a managing director, and Mr Paulo Pereira, an executive director.

Rival investment banks yesterday questioned whether its involvement would affect Morgan Stanley's relationship with AT&T in the US.

The first key meeting involving advisers came on September 24 and 25, when Mr Bert Roberts, MCI's chairman and chief executive, and Mr Gerald Taylor, president and chief operating officer, flew to London with Mr Rohatyn for a full-scale meeting with BT and its advisers.

That meeting set the basic shape of the deal. The structure of the merged company and how it would be managed were not difficult to devise – a far more tricky issue lay in sorting out a financial structure that would bridge the gap between what were widely different companies.

This was a difficult matter, and Mr Rohatyn says that the negotiations were hard-fought.

"We were close to breakdown a couple of times. There were some very difficult moments but both sides were on tha sama wavelength, and industrial logic kept driving it forward," he said.

The principal challenge lay in the diffsring characteristics of the two shares. BT shares tended to be bought for their yield, rather than growth. In contrast, MCI was a classic growth stock that hsd a different class of ehareholders. The main task was to find a way of pleasing two different audiences.

The structure of a special dividend to BT shareholders and a cash payment of £2.3bn to MCI investors was intended to bridge this gap whila injecting leverage into the BT balance sheet. "The bankers devised a structure allowing BT to be a little more dynamic," says one investment banker.

Nonetheless, a final agreement was hard to achieve. After a meeting 10 days ago between Mr Alt and Mr Nalson ended in what seemed to be deadlock, tha companies had to rekindle talks. A settlement was reached between Sir Petar Bonfield, BT'e chief executive, and Mr Taylor shortly afterwards.

"All these things break down a few times before tbey can be finally settled," says one banker. Mr Rohatyn says the talks might have had to be abandoned if relations had suffered: "There is a point wbere it is better to go back to tha status quo ante if you are not making any progress."

For Lazard and Rothschild, the *deal has* been a chance to demonstrate their expertise in one of the most fast-moving of industrial sectors.

Fees have not yet been agreed, but it is unlikely to be the largest pay-day for any bank involved, in view of tha existing links between BT and MCI.

Higher prices and lower costs lift ABF

By Roderick Oram, Consumer Industries Editor

Associated British Foods brought s rare burst of optimism to the hard-pressed UK food processing sector yesterday, reporting a strong upturn in profits thanks to bigher prices and lower costs.

The company, the UK's largest baker and owner of Burtons biscuits, Twinings teas and British Sugar, reported a 12 per cent rise in UK food operating profits to £282m ($460m) on sales up 8 per cent to £3.11bn.

With strong contributions too from textile retailing in the UK, food retailing in Ireland and foreign food processing, ABF lifted group pre-tax profits by 15 per cent to £430m for the year ended September 14.

Encouraged by the higher-than-forecast profits and the company's upbeat outlook, analysts raised forecasts for this year to about £450m. The shares closed up 8½p at 425½p.

"I don't know wbether we're the first herald of spring or not," Mr Garry Weston, executive chairman, said. With costs and prices moving in the right direction, "we're at last getting it through to the bottom line".

But it had taken a year to get some price increases out of supermarket chains, and he expected no more in the near future. Profits at British Sugar were down £1m at £183m because of adverse currency movsments in Europe.

Excluding sugar, ABF's UK food profits were up by 45 per cent to £99m, compared with a rise of about 10 per cent for the sector as s whole, Mr David Lang, an analyst with Handerson Crosthwaite, estimated.

To continue its long-standing divarsification away from supplying UK retailers, ABF was planning further start-ups and acquisitions abroad, Mr Weston said.

In particular, "the Pacific needs our technologies and cash. We can make things happen there much faster than in eastern Europe or Russia."

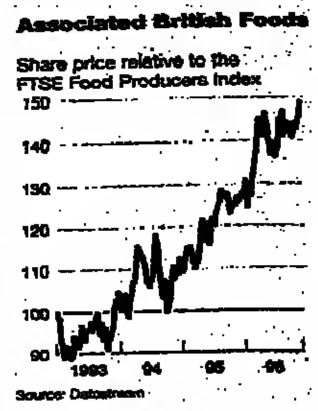
ABF will continue to invest in basic food processing such as starcb and sugar products. Finance is no constraint. ABF's net cash balance grew by £196m to £797m at year-end, earning investment income of £54m.

ABF's retailing operations lifted operating profits by 25 per cent to £69m on sales up 8 per cent to £1.51bn.

Profits from Australia and New Zealand rose by 23 per cent to £38m on sales up 20 per cent at £637m. in the US, AC Humko, acquired last year from Kraft Foods, had a successful year.

LEX COMMENT

ABF



Associated British Foods is a stock market anomaly. Run like a family concern by a hands-on patriarch, ABF sits on a mountain of cash and a ragbag of mature businesses. And yet it has substantially outperformed all its peers among the food producers over the past three years, in terms of both share price and profits growth. And it continues to generate attractive returns on capital despite its £800m of poor-performing cash. Last year, it was the turn of the group's old core to flourish, with the UK food manufacturing businesses generating 50 per cent profits growth. The company is weak on brands, but it has focused on improving productivity and was helped by falling packaging costs and a bit of price inflation in the UK supermarkets. Even the bread business ceased to be a millstone, temporarily. However, aggressive price competition is returning, judging by J Sainsbury's latest moves, so the current year could be tougher. Investment in emerging markets has accelerated, particularly in China; but, as ever with ABF, this is a very long-term investment.

The best chance of further share price outperformance would be if ABF spent some casb. Its record with deals has been exceptional and virtually any acquisition would enhance earnings. However, a key to management success has been patience, so it could be a long wait. in the meantime, the shares are sitting at a comfortable premium to the sector, which is probably far enough.

TeleWest joint service scheme

By Raymond Snoddy

TeleWest, the UK's largest cable company which will soon be dwarfed by the entry of Cable and Wireless, believes that offering combined telecommunications and television packages will improve its subscription rates.

Mr Stephen Davidson, TeleWest's acting chief executive, said yesterday that trials of the combined package, Teleplus, had been positive.

"We saw significant improvement in churn [disconnection] rates of the order of 10 percentage points, higher customer satisfaction and penetration [subscription] levels and higher revenues per subscriber," he said.

The Teleplus package has now been launched in all TeleWest franchises.

TeleWest bas been trying to reduce cburn rates, which last year were running at 46 per cent annualised.

The group announced an operating surplus of £1.5m ($2.44m) before interest, tax and depreciation for the third quarter.

Revenue in the third quarter more than doubled to £73.1m – up 45 per cent before the effect of the acquisition in October 1995 of SBC CableComms is included.

Cable television revenue also more than doubled to £29.3m, with residential telephony up 1.7 times to £32.9m. Total revenue for the year to date was £206.6m (£134.1m).

The net loss for the third quarter also doubled to £59.2m as capital investment continued. In the third quarter expenditure reached £131.1m. The network is now 61 per cent completed.

Net losses for the year to date rose 1.6 times to £176.9m as capital expenditure doubled to £361.3m.

Mr Davidson said the emergence of C&W as the leading business in the industry, through uniting the cable interests of Nynex, Bell Cablemedia and Videotron, would be positive.

TeleWest and C&W had already agreed to co-operate on the launch of digital products in response to the expected start of digital satellite services by British Sky Broadcasting next year.

Later this week the cable industry is expected to announce a common approach to providing fast access to the Internet through cable networks.

Trevor Humphries

Stephen Davidson: 'positive' trials for the Teleplus package

CalEnergy to publish Northern offer

By Jane Martinson

CalEnergy, the US independent power producer, is to start the takeover clock for its proposed £766m ($1.2bn) bid for Northern Electric this week with the publication of its offer document.

An adviser for the group said that it was "not going to wait" for its target to publish interim results. Under takeover rules CalEnergy has 28 days from ths laimch of its bostile bid, last Monday, to pnblish the document.

Northern, a regional electricity company, could also bring forward the publication of its results – due on December 5 – to this week.

However, Mr David Morris, Northern's cbairman, said yesterday the company "still had work to do" with Schroders, its financial advisers, and Ernst and Young, its accountants.

The results are expected to reveal further reductions in debt and more details of the value of the group's interests in various businesses.

Mr Morris said yesterday the interims would be the "platform" on which the group would base its defence.

However, analysts said they were not expecting too many surprises. One said: "The problem Northern faces is that it doesn't have a lot of room to do anything extra."

Since fighting off a bid by Trafalgar House almost two years ago, Northern has returned £540m to sharebolders in a defence which has left it with the most highly geared balance sheet in the sector.

At the same time Mr Morris said the company had not been in talks with any other potential predator. It was "far too early" to talk about white knights, he said: "We haven't even got a bid on the table yet."

Analysts said they would be surprised if any of the "usual suspects" would launch a rival bid st this stage when there were four other independent regional electricity companies to buy: Yorkshire, Southern, East Midlands and London.

There is more uncertainty over the opinion of Professor Stephen Littlechild, the industry regulator, who is to advise the Office of Fair Trading over wbether the bid should be allowed.

Although Prof Littlechild has allowed three other US groups to take over regional electricity companies, analysts said the closeness of the UK general election and the dwindling number of independent recs may also have a bearing upon the outcome.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Assoc Brit Foods	Yr to Sept 14	5.71	(4.89)	0.43	(0.375)	31	(27.8)	5.25	Mar 3	4.5	8.5	8.75*
Blacks Leisure	6 mths to Aug 31	42.2	(29.6)	3.9♠	(0.736)	8.46	(1.59)	1.25	Feb 3	0.75	-	2.25
Greycoat	6 mths to Sept 30	17.6	(18.7)	3.8♥	(1.7♥)	3.1‡	(1.3)	-	-	-	-	0.8
Lofs $	6 mths to Sept 30	20.5	(15.76)	0.560	(2.242)	0.007	(0.030)	nil	-	0.25	nil	0.75
Shoprite	28 wks to July 13	18.2	(13.9)	0.958	(0.395L)	1.21	(0.87L)	nil	-	nil	-	nil
Tamaris	6 mths to Sept 30	7.1	(4.4)	1.6♥	(0.61♥)	0.29†	(0.14)	0.025	Feb 12	0.021	-	0.073
Umeco	6 mths to Sept 30	12.8	(9.58)	1.03	(0.618)	6.4	(3.81)	1.8	Feb 14	1.25	-	4.25
Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
NatWest Irish	6 mths to Sept 30☆	134.86	(102.18)	0.204	(0.117)	0.95	(0.54)	0.1大	Dec 18	-	-	0.675

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *Equivalent after adjusting for scrip issue. ♠After exceptional charge. ♥After exceptional credit. ‡On reduced capital. †On increased capital. $US currency. ☆Comparatives for 7 months; company commenced operations on June 8. 大Foreign income dividend.

Intrum Justitia merges division

By Clay Harris

Intrum Justitia, the debt collection group, has merged its credit insurance management subsidiary, the largest company in the sector, with tha fast growing number two.

The deal, which hrings privately owned Credit Management Resources into the intrum fold, also secures the services of Mr Christian Hoy, who founded CMR in 1990. He is managing director of ths new company, CMR intrum Justitia.

Intrum Justitia bolds a 51 per cent stake in the new company, even thougb its Intrum Insurance Sarvices subsidiary has twice the turnover of CMR. This reflects CMR'a higher return on premium income. No figures were disclosed.

Credit insurance managers provide umbrella policies for smaller companies, enabling them to gain cover at a lower cost and without incurring administrative overheads.

CMR Intrum Justitia accounts for about 75 per cent of the UK market for independent policy managers. It has an umbrella policy with NCM, the Dutch credit insurer which bought the short-term business of Britain's Export Credits Guarantee Department when privatised in 1991. It also checks on the credit worthiness of its clients' customers.

The new company will initially provide cover for about £150m of business, with exports accounting for 80 per cent, said Mr Paul Austin, operations director.

NEWS DIGEST

TI stands by bid price for Forsheda

TI Group yesterday warned disgruntled investors in Forsbeda, the Swedish polymer engineering company, that it had no plans to raise its £189m ($308m) bid.

The announcement was made to stock exchanges in London and Stockholm after TI representatives met Mr Stephen Peak of fund manager Henderson, the most outspoken of investors demanding a higher price.

TI also emphasised its right to declare its offer unconditional with acceptances of less than 90 per cent. Mr Tony Sumner, corporata affairs director, said: "We have made an offer for Forsheda that we think is full and fair. We have no intention of increasing it."

The bid, which closes on Friday, is part of a drive by the UK engineering and aerospace group to double its polymer engineering sales to £300m a year. Its offer has the backing of Forsheda's board and its advisers, Enskilda Securities. It has irrevocabla acceptances from Agora, the bolding company of the founding family. These give TI sway over 20.6 per cent of the shares, and 63.6 per cent of voting rights.

The B shares closed down SKr1.5 at SKr224 in Stockholm last night, below TI's offer of SKr225.

Henderson, which has 12.8 per cent of the B shares, has claimed investors with up to 20 per cent believe Forsheda is worth more than TI's offer. It has argued that investors can prevent TI from reaching 90 per cent, necessary before minority investors can be required to sell their shares. But Mr Sumner said this need not pose a problem. TI controlled quoted companies with minority investors in Japan and india, he said.

Ross Tieman

Ladbroke in US sale

Ladbroke, the hotels and betting group, yesterday said London & Leeds, its US property arm, had sold the 275,000 sq ft Ballston Station development in Arlington County, Virginia, for $56.2m to the State Teachers Retirement Board of Ohio. London & Leeds has received $2.8m with the balance of $53.4m due in December. Last year's net rental on the eight-storey building was $5m.

The sale is part of Ladbroke's policy of withdrawal from commercial property. in the past two years its portfolio has been cut from £1bn to £185m. The proceeds will be used to reduce debt and invest in core activities.

Lofs passes dividend again

London & Overseas Freighters, the Bermuda-based oil tanker opsrator, yesterday unveiled an 80 per cent fall in pre-tax profits to $560,000, and passed its dividend despite increasing net operating revenues 30 per cent to $20.5m in the six months to September.

Demand for its vessels in the Caribbean was weak due to competition and a fall in the number of oil tanker movements, plus the continued reduction of oil stocks.

Boston banks sold for $87m

By George Graham, Banking Correspondent

Citizens Financial, the US retail banking subsidiary of Royal Bank of Scotland and Bank of Ireland, is to pay $87m cash to acquire Grove Bank, a savings bank in Boston, Massachusetts.

The price includes Greater Boston Bank which Grove was alrsady taking ovsr. Grove has $599m in assets and seven branches in metropolitan Boston, while Greater Boston Bank brings another three branches and assets of $167m.

The price is estimated to represent about 1.8 times Grove and Greater Boston's combined book value at the tims of completion, probably early next year.

Tha Citizens Financial group took its current form this year wben Royal Bank merged its Citizens anbsidiary, based in Rhode Island, with Bank of Ireland's First Nsw Hampsbire Bank. Royal Bank owns 76.5 per cent of the combined group, while Bank of Ireland has 23.5 per cent. Grove is Citizens' 10th scquisition since 1992.

T&N wins US legal reprieve

By Tim Burt

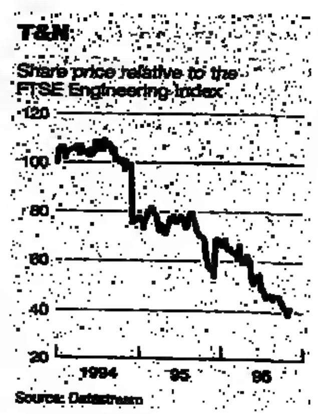
T&N, the motor components and specialist angineering group, has won a legal repriave over its Nortb American asbestos liabilities.

The company, formerly one of the UK's largest asbestos suppliers, said yesterday that the US Supreme Court would re-examine an earlisr ruling that threatened to scupper a new fixed payment system for victims of asbestos-related diseases.

T&N, which has paid more than £350m ($571m) in compensation in the past 10 years, had warned that it would have to set aside an extra £50m in asbestos provisions if the case had been thrown out.

Sir Colin Hope, chairman, said the interim ruling meant the "Georgine Settlement", a class action setting fixed payments for sufferers of asbestos-related diseases, would remain in place until the case was heard next year. That is expected to require provisions of £25m in the second half of this year and £40m-£50m in 1997.

The possibility of finding insurance cover to reduce future asbestos liabilities would be explored.



The positive news, however, was tempered by a cautious trsding statement which warned of difficult conditions in the diesel components, heavy duty truck and industrial markets.

To cut costs, T&N will accelerate destocking and redundancies. Up to 2,000 jobs are expected to go this year, and a further 2,000 in 1997 out of s workforce of 32,000. It is also thought to be considering a non-core disposal programma.

LAW

Tunnel pact restored

EUROPEAN COURT

A European Commission decision imposing conditions on a capacity-sharing agreement between Eurotunnel and the international train operators SNCF and British Rail was based on an error of fact and therefore had to be annulled, the European Court of First Instance ruled recently.

SNCF and British Rail had applied to the court for annulment of a 1994 Commission decision concerning the 1987 agreement between Eurotunnel and the two railway companies granting them the right to 50 per cent of the capacity of the Channel tunnel for the duration of the contract.

The contract was notified to the Commission, but having granted it an informal exemption from the competition rules for three years with no conditions attached, the Commission took a different view when it took a formal decision.

The Commission had decided that since it considered that the reservation for the two rail companies of all the hourly paths available for international trains was neither essential to them for the provision of their transport services nor to the success of the project, the exemption should be made subject to conditions. Those conditions required the companies to make 25 per cent of their allocated capacity available to other rail operators.

SNCF and British Rail were supported by the UK government, Eurotunnel and European Passenger Services, which argued that the Commission's decision was based on error of fact. They submitted that the error vitiated not only the assessment of how the contract would restrict competition, but also the examination of the contract in the light of the exempting provisions and regulations under the Treaty of Rome.

Having analysed the Commission's approach, the court noted that contrary to what was stated in the decision, the contract did not provide for half of the tunnel capacity to be reserved for shuttles.

Nor did the contract prevent capacity being made available to other railway companies which wished to operate international trains.

The court concluded that the Commission had misinterpreted the contract, and that this could not be explained by a modification to the contract after the adoption of the decision.

The Commission's assessment of the restrictive effects of the contract on competition in relation to other rail companies was therefore wrong, and the error of fact also influenced the assessment of the contracts in the light of the Treaty and regulation exemption provisions.

It concluded that if the Commission had correctly assessed the opportunities available to other rail companies to obtain the hourly paths necessary to run international trains through the tunnel, it might not have deemed it necessary to impose conditions on SNCF and British Rail. Alternatively, the Commission could have imposed conditions on Eurotunnel as well, thereby enabling less onerous conditions to be imposed on the rail companies.

Since it was not for the court in annulment proceedings to substitute its own assessment for the Commission's, that part of the decision which imposed the disputed conditions on SNCF and British Rail had to be annulled. Those conditions constituted an essential part of the decision, inseparable from the remaining provisions, and the decision was therefore annulled in its entirety.

T-79/95 and T-80/95: Société Nationale des Chemins de Fer Français and British Railways Board v Commission, CFI 3CH, October 22 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

New heads at Mexican group

Cemex, the Mexican cement multinational, has appointed Héctor Medina as its new finance and planning director following the death last month of Gustavo Caballero, who had held the post since joining the company in 1988.

Caballero was a childhood friend of Lorenzo Zambrano, the chairman and chief executive officer of Cemex. Those who worked under Caballero over the past eight years say the deep trust Zambrano deposited in his chief financial officer gave Caballero the freedom to transform Cemex from a domestic cement company to the third largest cement producer in the world, with operations in 22 countries. Medina headed Cemex's Mexican operations until becoming Cemex finance and planning director. Francisco Garza, who ran Cemex's subsidiary in Venezuela, will take over Medina's job at Cemex Mexico. *Leslie Crawford*

Trucks role for Gigou

The career of Michel Gigou, the amiable 50-year-old Frenchman who has run Renault's car operations in the UK for the past five years, is taking a heavyweight turn. From December he will be heading Mack Trucks, the North American heavy truck producer controlled and owned by the French vehicles group.

Gigou, a 24-year Renault veteran who was European marketing director before taking over the UK slot, is to succeed Pierre Jocou as Mack's president and chief executive. Jocou, 60, who has been Mack's chairman as well as president and chief executive since moving to the job in March 1995, is leaving to work independently in the field of total quality management.

Gigou will not inherit the chairmanship; that is being assumed by Shemaya Levy, chairman of Mack's parent, Renault Vehicules Industriels. But he will have the task of continuing Mack's recovery from its near-terminal sales collapse of the 1980s, when Renault came very close to shutting the operation.

At one time Mack was one of the foremost heavy hitters in the US truck industry, accounting for nearly 20 per cent of sales of 'Class 8' trucks – those over 15 tonnes – but that had almost halved by 1992. The company has slowly been clawing back market share, and currently has over 12 per cent.

Gigou's own replacement at Renault UK is Benoit Marzloff, currently vice-president for corporate and fleet sales in France. *John Griffiths*

Bristol-Myers Squibb

Bristol-Myers Squibb has recruited British molecular biologist Peter Ringrose to head its research programme, in an effort to beef up its drug development effort. In recent years, the US pharmaceuticals giant has been less successful than its peers in bringing "blockbuster" drugs from inception to market.

Ringrose has a proven track record in that area. He comes from Pfizer, where he ran the company's successful UK research facility, which has produced some of Pfizer's best-selling products such as the anti-fungal treatment Diflucan. Bristol-Myers plans to spend more than $1bn on pharmaceutical research in 1996, and has 42 compounds in active development.

Ringrose, aged 51, received his graduate and doctorate degrees from Cambridge University. Before joining Pfizer in 1982 he held positions at Sandoz and Roche. In his new position as president of Bristol-Myers' Pharmaceutical Research Institute, effective from January, he will be based in Princeton, New Jersey.

He will succeed Leon Rosenberg, who will serve as senior vice president for scientific affairs, until his retirement in early 1998. *Tracy Corrigan*

Goodyear's drive

Goodyear, the north American tyres giant, has created a new post of managing director to spearhead a renewed drive into non-tyre business in Europe. The first incumbent, former Gates Rubber vice-president Tony Roberts, will be responsible for expanding Goodyear's sales of transport and industrial products in the region.

Non-tyre business is by no means a fringe activity for the world's third-biggest tyre maker. Its engineered products division, within which Roberts will operate, has sales of around $1.2bn a year.

Roberts' appointment is expected to herald not just a sales drive but the creation of additional manufacturing and distribution facilities for the products across Europe.

Goodyear already claims to be a world leader in conveyor belts, industrial hoses and power transmission belts; now it is eyeing new markets such as air springs, transport hose and moulded rubber products.

Most of these are areas with which British-born Roberts, 51, is long familiar. His 24 years with Gates included – apart from a stint as president of Gates Canada – a long run as managing director of its hose and connector division. *John Griffiths*

Pirie for SocGen

Robert Pirie, a former chief executive officer of Rothschild Inc, has been appointed vice chairman of the investment banking division of Société Générale USA. He will also be a senior member of Société Générale's international mergers and acquisitions group. Prior to joining the US arm of the French bank, for the last three years Pirie has been senior managing director at Bear Stearns.

Société Generale is one of a number of large European banks currently trying to build up its US investment banking business. *Tracy Corrigan*

ON THE MOVE

■ Lloyd Bentsen, former US treasury secretary, has been appointed chairman of NEW HOLLAND, the agricultural machinery maker being floated off by Fiat.

■ Michele Hooper, corporate vice-president of health care provider Caremark International, joins the board of SEAGRAM, the Canadian beverages and entertainment group. Daniel Paladino rises to executive vice-president, legal and environmental affairs.

■ Paul Smits has left the management board of KPN, the Dutch postal and telecoms group, to head UNISOURCE – a partnership between Telefonica, Telia, PTT Telecom and Swiss Telecom.

■ Sir Iain Vallance, chairman of British Telecommunications, becomes the 15th member of the board of MOBIL CORPORATION.

■ William Sheridan joins SOTHEBY'S HOLDINGS, parent company of the international auction group, as senior vice-president and chief financial officer. Sheridan previously handled Sotheby's affairs at Deloitte & Touche, the accountants. He succeeds Kevin Bousquette, now chief operating officer.

■ Peter Bezemer, 45, has been named general manager of the AMSTERDAM SECURITIES DEPOSITARY, due to become part of Amsterdam Exchange Holding. He was previously chief operating officer of MeesPierson Holdings in London.

■ Paolo Pierri, a former manager at Italian state-controlled telecoms holding company Stet, has resigned from the board of troubled Italian financial holding group GEMINA.

■ David Gergacz has resigned as executive vice-president of CINCINNATI BELL and chief executive of Cincinnati Bell Telephone, which will report to James Orr, group chief operating officer, until a successor is found.

■ Ali Ghannam, 38, a senior official at the trade ministry, succeeds Mehdi Benbouchta as managing director of SOMACA, Morocco's leading car assembly firm.

■ Paul Gerbecks becomes a director of the DTB futures exchange and the FRANKFURT STOCK EXCHANGE. He has served on the board of Deutsche Boerse, which operates both exchanges, since August.

■ Alan Horn succeeds Graham Savage – who recently resigned – as chief financial officer of ROGERS COMMUNICATIONS, Canada's biggest cable TV operator. He was previously vice-president of administration.

■ Steve Lanzl, 47, becomes vice-president of information technology at BOWATER INCORPORATED, the largest producer of newsprint in the US. He replaces Aubrey Rogers who is retiring; he previously worked for El du Pont de Nemours.

■ Kuok Khoon Chen, the Malaysian tycoon whose Kerry Beverages holds a number of Coca-Cola franchises in China, has become a non-executive director of COCA-COLA AMATIL, the Australian based soft drinks group in which he recently acquired an interest.

■ Zamani Abdul Ghani, assistant governor of the Malaysian central bank, has been appointed an executive director of the INTERNATIONAL MONETARY FUND for two years from November 1.

■ Steven Stanbrook, president of international operations for COMPUSERVE, the on-line computer services group, is resigning to become executive vice-president of SC Johnson, a consumer products firm.

■ Russell Meyer Jr, chairman and chief executive of Cessna Aircraft, has resigned from the board of VANGUARD AIRLINES.

■ Mete Basol becomes chief executive and general manager of TURK MERCHANT BANK, a Bankers Trust joint venture. Vural Akisik, founding partner, will retain an advisory role as chairman.

■ Alan Roy Dynner succeeds Day Brigham as vice-president and chief legal officer at EATON VANCE, the Boston-based mutual fund manager.

■ Dick Snyder, joins COMPAQ COMPUTER from Dell, in the new post of senior vice-president and general manager, worldwide sales, marketing, service and support group. Alan Lutz joins from Unisys as senior vice-president and general manager of a new communications products group. Jim Schraith, previously with the Cerplex Group, joins as vice-president and general manager north America.

■ Encik Aminuddin Yusof Lana, managing director of METACORP, Malaysian toll road operator and property developer, has resigned. Encik Babarin Salleh replaces him.

■ Randy Reiss has resigned as executive vice-president of WALT DISNEY STUDIOS.

■ Dennis Mull becomes vice-president of worldwide retail sales for PNY ELECTRONICS, the privately-owned US computer memory company.

■ Joaquin Avila, managing director of SANTANDER INVESTMENT, has resigned. Jose Antonio Diaz becomes head of the Madrid merchant bank's New York office, replacing Joaquin Avila.

■ Paul Manson, becomes chairman of the newly consolidated LOCKHEED MARTIN ELECTRONIC SYSTEMS CANADA. Larry Ashley, president of the existing Lockheed Martin Canada, becomes president and chief executive.

■ Louis Loong is the new director of corporate affairs at HONG KONG TELECOMMUNICATIONS, where Rick Tang has resigned.

■ Ursie Fairbairn joins AMERICAN EXPRESS on December 1 from Union Pacific, as executive vice-president of human resources and quality.

■ Andrea Jung, 38, president, global marketing at Avon Products, joins the board of DONNA KARAN INTERNATIONAL, the US designer which floated in June.

■ Robert Schult, president and chief operating officer of Nestlé USA, has been appointed a non-executive director of KYSOR INDUSTRIAL, a producer of commercial refrigeration.

■ Mary Doan takes a new role as worldwide director of client service applications at SAATCHI & SAATCHI ADVERTISING WORLDWIDE, with a brief to co-ordinate information on new technologies.

■ William McCarley has resigned as general manager of the LOS ANGELES DEPARTMENT OF WATER & POWER, the largest municipal utility in the US, effective from February 1.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

INTERNATIONAL CAPITAL MARKETS

BNP cancels issue days after launch

INTERNATIONAL BONDS

By Samer Iskandar and Conner Middelmann

A $150m bond issue for Banque Nationale de Paris was abruptly pulled yesterday, just two days before it was due to close.

It was unclear yesterday why the BNP bonds were withdrawn just days after the launch. The issue was of undated floating-rate notes – which pay a variable interest rate.

CS First Boston, the lead manager, said the withdrawal had come "as a result of press reports concerning the French government's possible sale of CIC" – a bank roughly half the size of BNP that it is reported to be bidding for, along with other French banks.

However, one senior banker in Paris insisted that the situation was public knowledge before the issue process started.

"The fact that buying CIC can potentially affect BNP's credit quality was obvious to everybody," he said. "This should have been noted by the lead manager during the 'due diligence' process."

One possible explanation for the mix up could be the fact that, as part of its confidentiality agreement with the French authorities, BNP was not allowed to comment publicly on any negotiations involving CIC.

But this argument was refuted by another French banker. "Since the information was known, it should have been mentioned during the issuance process," he said. "On the other hand, if BNP was not in a position to follow the issuance recommendations of IPMA [the International Primary Market Association], it should not have issued the bonds in the first place."

In the sterling sector, Friends Provident, the UK life assurer, issued $215m of undated subordinated call and step-up notes which were largely pre-placed ahead of launch and ended the day fully sold, with the yield spread narrowing to 132 basis points over gilts from a launch level of 135.

The bonds were placed mainly with UK institutions, although US investors bought some bonds under SEC Rule 144a, dealers said. Merrill Lynch and SBC Warburg led the deal.

A $150m floating-rate offering for Irish Permanent, the former building society which converted to bank status in late 1994, got a more lukewarm reception, being deemed tightly priced at a re-offer spread of 5 basis points over Libor, which widened to 8 points after the bonds were freed to trade. Nevertheless, lead Merrill Lynch saw good demand from financial institutions in the UK and abroad.

The D-Mark sector saw the second securitisation for VW Car Leasa, which raised DM465m in triple-A rated tranche-A bonds and DM35m in subordinated, A2/A+ rated tranche-B bonds. Both tranches are backed by car lease receivables and cash collateral.

● Moody's, the rating agency, has placed Greece's sovereign foreign currency debt ceiling on review for possible upgrade, given "the improvement in the fiscal balances in the past few years as well as the stronger political resolve to continue with policies consistent with EU convergence".

It also upgraded Qatar's sovereign ceiling for ratings of long-term foreign-currency bonds and bank deposits to Baa2, based on the country's improved economic and financial prospects, "stemming primarily from the ongoing development of its vast North Field gas reserves".

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Banco BCN Barclays(a)	50	(a1)#	99.883R	Nov 2004	1.00R	+275(WI 3yr)	Barclays de Zoete Wedd
■ D-MARKS							
VW Car Lease No 2, T1(b)‡	465	(b1)	100.00R	Feb 2000	0.125R	-	CSFB-Effectenbank
■ SWISS FRANCS							
Republic of Argentina	200	7.00	102.25	Dec 2003	2.50	-	Bqe Paribas/Deutsche
■ STERLING							
Friends Provident Finance(c)	215	9.125	99.269R	undated	0.625R	+135(7½%-06)	Merrill/SBC Warburg
Irish Permanent Treasury‡	150	(d)	99.989R	Nov 1999	0.125R	-	Merrill Lynch International
■ LUXEMBOURG FRANCS							
Eurofima	3bn	5.75	102.50	Dec 2004	1.875	-	Crédit Européen-BBL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable & puttable on 18/11/99 & 18/11/01 at par. a1) 8⅝% to 18/11/99, then 8¾% to 18/11/01, then 8⅞%. b) Amortises monthly. Average life: 14 months. b1) 1-mth Libor +7bp. b2) Tranche 2: DM35m, 1-mth Libor +30bp, parR, amortises after Tranche 1, average life: 34 months. c) Callable on 25/11/06 and every 5 yrs at par. If not called coupon is reset at the higher of the current coupon or 5yr gilts +235bp. d) 3-mth Libor +5bp.

CAPITAL MARKETS NEWS DIGEST

Liffe enjoys its busiest month yet

Increasing volatility over European monetary union and last month's rise in UK base rates led to Liffe, the London international futures and options exchange, recording its busiest month ever in October. Trading levels beat the exchange's previous record, set in February this year, with an average daily turnover of £190.1bn.

The exchange traded a total of 18.4m futures and options contracts, an increase of 68 per cent on the same month in 1995. The average daily volume was more than 800,000. New records were set in trading in D-Mark, lira and Swiss franc interest rate futures. A big increase was seen in options on Italian BTP futures, with 352,000 traded in October, compared with the 265,000 in June this year.

Richard Adams

Ukraine plans two eurobonds

Ukraine plans two eurobond issues next year, according Mr Valery Litvitsky, the president's economic adviser, who said a presidential decree would be issued in "two to three weeks". A trial issue of $100m would probably be followed by a $250m bond, he said, adding that the government is also considering a samurai bond placement in the Japanese domestic bond market. The central bank would be the agent and the ministry of finance the issuer.

Several western investment banks – including Nomura, SBC Warburg and Merrill Lynch – have held discussions with Kiev recently. Ukraine has stepped up efforts to tap the international capital markets after Russia successfully obtained a credit rating in September. Ukraine, which has no outstanding debts left from the Soviet era, is likely to be a large borrower. It has moved quickly in recent weeks in response to growing appetite among investors for sovereign bond issues from the former Soviet Union.

Matthew Kaminski, Kiev

Prague to raise Kc7.5bn

The city of Prague is set to make its second foray into international capital markets to raise up to Kc7.5bn, which will be made available to residents for mortgage purposes through a municipally-owned bank.

Mr Jan Koukal, mayor of Prague, said the capital-raising would be either a bond issue through Prvni Mestska Banka, in which the city has a majority stake, or a syndicated loan. Approaches have already been made to a number of international banks, including Chemical of the US and Deutsche Bank, about leading a syndicate.

The money would be used to offer mortgages through the municipal bank. Mr Koukal expects the local authority to vote on the move before the year-end and for the issue to be launched by February 1997.

Two years ago the city raised $250m in the first eurobond issue by a municipal authority from post-communist Europe. Prague is rated A by Standard & Poor's, and Mr Koukal said it could be upgraded after elections to a new senate next week.

Vincent Boland, Prague

Bunds ignore weak industrial production data

GOVERNMENT BONDS

By Samer Iskandar in London and Lisa Bransten in New York

European bond markets traded quietly yesterday, while US traders braced themselves for today's presidential election.

German bunds closed roughly unchanged, ignoring weaker than expected industrial production data.

Liffe's December bund future settled at 99.46, down 0.08, while in the cash market, the 10-year benchmark bond was 0.03 lower at 101.54.

German industrial production was down 1.8 per cent month-on-month in September. Analysts, however, warned that the economics ministry intended to revise the data upwards.

"The wording of the release is more important than the figure itself," said Mr Adrian Owens, an economist at Julius Baer Investments. "But no matter how important the revision is, it is unlikely to bring the data into positive territory."

Mr Kirit Shah, chief market strategist at Sanwa International, believes bund traders are increasingly discounting a rate rise.

As a result, the September 1997 euromark future has fallen from 96.60 two weeks ago to 96.27 yesterday, while the German yield curve has flattened by 30 basis points between the two-year and 10-year maturities, to 227 points yesterday.

UK gilts had a quiet but negative session as the release of stronger than expected monetary statistics caused some profit-taking. Liffe's December long gilt future closed $\frac{7}{32}$ lower at $108\frac{14}{32}$.

In the cash market, the 10-year yield spread of gilts over bunds widened by 2 basis points to 184 points.

"At these levels, gilts look very attractive," said Mr Owens, of Julius Baer. "Although [last week's] rate rise has scared investors, in the longer term it should have a reassuring effect."

Sanwa International's Mr Shah is also bullish, although he warns that expectations of further rate increases could still weigh on gilts in the short term, with a possible widening of the 10-year spread by another 10 basis points or so.

He believes the market will benefit from sterling's firmness and the generous absolute level of yields. "With real yields higher than those of Spanish bonos, the underlying value of gilts remains positive," he said.

Mr Owens said tomorrow's publication of the Bank of England's inflation report "will give an indication of whether the governor is still looking for more rate rises".

Europe's high-yielding markets were mixed, with Italian BTPs outperforming other bonds, while Spain and Sweden lagged behind bunds.

Mr Shah pointed out that there was little room left for further Emu-related yield convergence. "BTPs can still tighten to around 200 basis points over bunds, but this is modest compared to the recent performances we have seen," he said.

"Furthermore, it is now clear that the lira's re-entry into the European exchange rate mechanism will take place at around L1,000 [against the D-Mark], so there is not much scope for currency gains either."

US Treasury prices recovered some of Friday's losses yesterday, but volumes were low as investors awaited the outcome of today's presidential election and this week's auctions.

Near midday, the benchmark 30-year Treasury was up $\frac{1}{8}$ at $101\frac{1}{32}$ to yield 6.662. At the short end of the maturity spectrum the two-year note rose $\frac{1}{32}$ to $100\frac{3}{32}$, yielding 5.756 per cent. The December 30-year bond future rose $\frac{1}{8}$ to $113\frac{1}{32}$.

Traders said they expected activity to remain subdued at least until Wednesday when the elections results are in. Few Wall Street houses plan to have traders at their desks late on Tuesday to monitor election results – but some said the market could move if there were any drastic changes in the political landscape.

Mr Kevin Sluder, a senior fixed-income trader at First Chicago Securities, said the market has largely priced in the status quo – re-election for President Bill Clinton with the Republican party retaining control of Congress.

"On Wednesday we could see some fireworks [on the market] if there is a surprise or a sweep either way," he said.

Also occupying traders is the new supply set to come to the market this week. This afternoon the Treasury is to auction $18.25bn in three-year notes; on Wednesday, it will sell $10bn in 10-year notes, and on Thursday it is to sell $10bn in 30-year bonds.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	95.6950	+0.140	7.36	7.42	7.82
Austria		5.875	07/06	98.4000	−0.140	6.09	6.08	6.05
Belgium		7.000	05/06	105.9500	−0.280	6.15	6.12	6.26
Canada *		7.000	12/06	104.8500	+0.010	6.34	6.63	7.18
Denmark		8.000	03/06	107.2000	−0.020	6.93	6.86	7.05
France	BTAN	5.500	10/01	102.2925	−0.090	4.98	4.98	5.23
	OAT	6.500	10/06	103.7500	−0.140	5.99	6.00	6.14
Germany Bund		6.250	04/06	101.5400	−0.030	6.03	6.03	6.09
Ireland		8.000	08/06	106.5500	−0.250	7.05	6.90	7.11
Italy		9.500	02/06	109.0100	+0.220	8.10†	8.16	8.65
Japan	No 140	6.800	06/01	0.0000	-	0.00	1.56	1.73
	No 182	3.000	09/05	0.0000	-	0.00	2.61	2.81
Netherlands		8.500	06/06	118.3200	−0.160	5.94	5.96	5.97
Portugal		9.500	02/06	112.6200	+0.100	7.56	7.54	8.05
Spain		8.800	04/06	106.3100	−0.130	7.81	7.78	8.02
Sweden		6.000	02/05	91.9288	−0.350	7.32	7.18	7.48
UK Gilts		8.000	12/00	102-22	−4/32	7.22	6.95	7.02
		7.500	12/06	98-12	−7/32	7.73	7.56	7.74
		8.000	10/08	106-29	−8/32	7.84	7.67	7.85
US Treasury *		6.500	10/06	101-02	−1/32	6.35	6.55	6.69
		6.750	08/26	101-01	−5/32	6.67	6.83	6.95
ECU (French Govt)		7.000	04/06	104.0800	−0.230	6.40	6.35	6.43

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.77
Prime rate	8¼	Two month	-	Three year	5.90
Broker loan rate	7	Three month	5.18	Five year	6.10
Fed.funds	5⅜	Six month	5.28	10-year	6.36
Fed.funds at intervention	-	One year	5.43	30-year	6.66

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	126.34	126.34	−0.10	126.42	126.24	48,211	190,189
Mar	126.34	126.30	−0.14	126.36	126.26	4,333	37,356
Jun	125.10	125.08	−0.12	125.15	125.06	732	6,239

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Nov	CALLS Dec	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Mar
124	-	-	-	0.07	0.20	0.54
125	1.50	-	-	0.15	-	0.78
126	0.72	-	1.46	0.39	-	1.17
127	0.25	0.56	-	0.96	-	-
128	0.08	0.24	0.81	-	-	-

Est. vol. total, Calls 8,884 Puts 6,849. Previous day's open int., Calls 166,536 Puts 153,183.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.38	99.46	-0.08	99.55	99.34	87685	255879
Mar	98.42	98.45	-0.08	99.51	98.40	1297	16811

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
9900	0.71	0.44	0.67	0.83	0.25	0.99	1.22	1.38
9950	0.41	0.28	0.48	0.63	0.45	1.33	1.53	1.68
10000	0.20	0.18	0.34	0.46	0.74	1.71	1.89	2.01

Est. vol. total, Calls 15184 Puts 12192. Previous day's open int., Calls 194840 Puts 187840

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	123.13	123.70	+0.60	123.74	123.05	39214	87384
Mar	122.80	122.92	+0.50	122.85	122.80	103	3891

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	CALLS Mar	PUTS Dec	PUTS Mar
12350	1.01	1.78	0.81	2.36
12400	0.75	1.54	1.05	2.62
12450	0.53	1.33	1.33	2.91

Est. vol. total, Calls 3904 Puts 3163. Previous day's open int., Calls 196328 Puts 174949

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	107.05	107.26	−0.06	107.44	107.06	38,335	68,278
Mar	106.66	106.71	−0.07	106.69	106.67	38	336

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108-15	108-14	-0-07	108-25	108-13	50081	147001
Mar	-	107-20	-0-07	-	-	0	2237

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
108	1-01	1-02	1-24	1-38	0-37	1-29	1-48	1-62
109	0-33	0-41	0-62	1-10	1-05	2-01	2-22	2-34
110	0-14	0-23	0-42	0-53	1-50	2-47	3-02	3-13

Est. vol. total, Calls 1198 Puts 1499. Previous day's open int., Calls 47380 Puts 28124

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	93.80	93.78	−0.20	93.90	93.70	854	8,237
Mar	-	93.34	−0.20	-	-	-	25

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	112-28	113-00	+0-06	113-11	112-17	448,213	387,172
Mar	112-10	112-17	+0-07	112.17	112-03	4,833	27,212
Jun	111-17	111-26	+0-03	111-29	111-17	898	5,944

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	125.30	-	-	125.37	125.30	193	n/a
Mar	124.54	-	-	124.54	124.54	50	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Nov 4	Day's change %	Fri Nov 1	Accrued interest	xd adj. ytd		Low coupon yield Nov 4	Nov 1	Yr. ago	Medium coupon yield Nov 4	Nov 1	Yr. ago	High coupon yield Nov 4	Nov 1	Yr. ago
1 Up to 5 years (21)	121.28	−0.01	121.30	2.88	8.04	5 yrs	7.31	7.30	7.36	7.37	7.34	7.37	7.42	7.40	7.45
2 5-15 years (18)	148.46	−0.14	148.67	2.88	8.09	15 yrs	7.93	7.90	7.98	7.92	7.89	8.03	7.93	7.92	8.11
3 Over 15 years (8)	165.30	−0.29	165.78	3.94	8.83	20 yrs	8.00	7.97	8.03	7.98	7.95	8.07	7.99	7.97	8.18
4 Irredeemables (6)	190.95	−0.52	191.94	4.84	8.83	Irred.†	8.03	7.99	8.17						
5 All stocks (54)	143.18	−0.13	143.36	3.15	8.92										

Index-linked							Inflation 5% Nov 4	Nov 1	Yr. ago	Inflation 10% Nov 4	Nov 1	Yr. ago
6 Up to 5 years (2)	202.24	0.01	202.22	0.54	5.28	Up to 5 yrs	3.22	3.22	3.19	2.58	2.57	2.08
7 Over 5 years (10)	193.04	0.06	192.92	1.49	4.17	Over 5 yrs	3.63	3.63	3.64	3.44	3.44	3.45
8 All stocks (12)	192.97	0.06	192.85	1.38	4.21							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Nov 4	Nov 1	Oct 31	Oct 30	Oct 29	Yr ago	High*	Low*
Govt. Secs. (UK)	93.37	93.22	93.89	93.88	93.90	94.05	96.34	91.59
Fixed Interest	115.25	115.32	115.35	115.48	115.31	112.41	116.45	110.74

Gilt Edged Activity Indices

	Nov 1	Oct 31	Oct 30	Oct 29	Oct 28
Gilt Edged bargains	100.8	98.3	98.3	85.3	122.5
5-day average	98.8	98.0	98.5	99.0	106.8

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or −	52 week High	52 week Low
Shorts" (Lives up to Five Years)						
Conversion 10pc 1996	9.99	7.02	100⅛	.....	103¼	100⅛
Treas 13¼pc 1997‡‡	13.06	6.09	101[illegible]	.....	107¾	100½
Exch 10½pc 1997	10.36	6.00	101[illegible]	.....	107[illegible]	100[illegible]
Treas Cnv 7pc 1997‡‡	6.97	6.33	100½	.....	101[illegible]	100½
Treas 8¾pc 1997‡‡	8.58	6.39	101[illegible]	.....	107[illegible]	101[illegible]
[illegible]						
Treas 7½pc 2006‡‡	7.62	7.76	98[illegible]	−⅛	101[illegible]	94[illegible]
Treas 7¾pc 2006‡‡	7.76	7.76	99[illegible]	−⅛	103¼	96[illegible]
Treas 8pc 2002-6‡‡	7.88	7.67	101[illegible]	−[illegible]	104[illegible]	97⅞
Treas 11¾pc 2003-7	9.77	7.67	120[illegible]	−[illegible]	125[illegible]	118[illegible]
Treas 8½pc 2007‡‡	8.05	7.79	105[illegible]	−[illegible]	108[illegible]	101[illegible]
[illegible]						

Index-Linked	Notes (1)	Yield (2)	Price £	+ or −	52 week High	52 week Low
4⅝pc '98‡‡ (135.6)	0.65	2.46	113[illegible]	—	114[illegible]	11[illegible]
2½pc '01 (78.3)	2.71	3.27	184[illegible]	—	185[illegible]	178[illegible]
2½pc '03 (78.8)	2.98	3.36	180[illegible]	+[illegible]	181[illegible]	171[illegible]
4⅝pc '04‡‡ (135.6)	3.05	3.43	117[illegible]	+[illegible]	118[illegible]	112[illegible]
2pc '06 (69.5)	3.20	3.49	189[illegible]	+[illegible]	191[illegible]	179[illegible]
[illegible]						

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on November 4

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	100⅛	100⅜		6.47
ABN Amro Bank 7¼ 05	1000	102⅞	102⅝	+⅛	7.00
African Dev Bk 7⅞ 23	500	100⅞	100⅞		7.34
Alberta Province 7⅝ 99	1000	103	103¼	−⅛	5.89
Asian Dev Bank 6¾ 05	750	97⅞	98		6.67
[illegible]					
Sweden 6 97	2500	104½	104⅝		3.36
United Kingdom 7⅛ 97	5500	103½	103⅝	−⅛	3.44
Volkswagen Intl Fin 7 03	1000	105¼	105⅞		5.91
World Bank 5⅞ 03	3000	101½	101⅝		5.61
World Bank 7⅛ 05	3000	107	107		6.03
[illegible]					
Abbey Natl Treasury 8 03 £	1000	100½	100¾	−⅛	7.86
British Land 8⅞ 23 £	150	00⅞	94¼	−¼	8.73
Denmark 6¾ 98 £	800	99⅝	99¾	−⅛	6.95
Depfa Finance 7⅛ 08 £	500	98	98¼	−¼	7.89
EIB 8 03 £	1000	101¾	101⅞	−¼	7.84
[illegible]					

FLOATING RATE NOTES

[illegible]

CONVERTIBLE BONDS

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

EAST AFRICAN CO-OPERATION

Learning from the past

East Africa's three presidents are preparing their countries for economic integration, writes Michael Holman

Twenty-five years after the collapse of the East African Community, the leaders of Kenya, Uganda and Tanzania are offaring a fresh vision for the region.

In a pledge first made aome 18 months ago, the countries' presldents have committed themselves to increased economic co-operation and the creation of a single market.

The new attempt to co-ordinate the development of the region, formally launched in March this year with the establishment of the secretariat of the Commisaion of East African Co-operation, has been able to huild on the foundations of the former Community.

Several institutions, such as the East African Development Bank, survived the collapse. Others, including the jointly-owned regional airline and other state-run corporations have been dismantled, but it is unlikely that they would have survived the move towards privatisation of recent years.

"The driving force this time will be individuals, not parastatals," says Francis Muthaura, executive secretary of the Commission: "Now is the time to create an enabling environment for business, including allowing power, road and telecommunication linkages, rather than joint enterprises."

The Commission, working from the Community's old headquarters in Arusha, has an ambitious agenda. It ranges from the harmonisation and rationalisation of tariffs, evolving joint fiscal and monetary policies, and exploring the possibilities of a customs union.

But there are other targets which, in theory at least, should be easier to implement, whether developing a regional tourism policy, co-ordinating electrical power projects, or introducing a standard travel document.

Given the dismal record of trade associations in Africa, the odds might seem against this latest venture succeeding, hut many of the strains that hrought about the Community's demise have been eased or resolved.

No longer are the countries divided by rival ideologies and different economic policies. All have adopted broadly similar economic reforms, and the tensions of the past between capitalist Kenya and socialist Tanzania and Uganda have disappeared. As trade is liberalised, foreign exchange controls eased, and all three governments press ahead with privatisation, the region's business and investment climate has dramatically improved.

Without these changes, the Dutch airline KLM would not have taken a stake in privatised Kenya Airways, and South African companies would not be investing in projects which include cotton ginneries in Uganda, a brewery in Tanzania, and hotels in Kenya. Nor would the Acacia Fund, in which the Commonwealth Development Corporation has an interest, last month have launched a $20m private equity fund to invest in Kenyan companies.

Co-operation is starting to bear fruit in other areas. The three currencies are now convertible, the ports are under better management, and central bank governors meet regularly.

But the three countries are still paying the price for the problems of the past. For all its remarkable progress, the Ugandan economy is roughly half what it was in 1971, before the disastrous era of Idi Amin.

In Tanzania, a listless bureancracy continnes to constrain growth, while the decision to exclude foreign investors from the stock exchange to be launched next month is a move the country can ill afford.

In Kenya, the deteriorating infrastructure and erratic power snpplies are constraining growth, and while corruption may have been curbed, donors continue to be concerned by the lack of transparency.

But, most worrying is the sense that the spirit of regional co-operation has not taken hold in Uganda and Tanzania, whose modest manufacturing sector risks being overwhelmed by better developed Kenya.

This will change in time, says Mr Muthaura: "A free market is going to generate competition and already we are seeing a lot of cross-border investment. This is the future, rather than remedial measures. If you have free movement of capital and goods and labour, these imbalances will be sorted out in the long term."

All three countries, he argues, have aomething to gain: "Tanzania has strong advantages in some key sectors – power, minerals, and soon it will start pumping gas from Songo Songo. Uganda has advantages in the agricultural sector and energy potential. Once the linkages are established we are likely to see a total transformation in the balance of trade." It is now overwhelmingly in Kenya's favour.

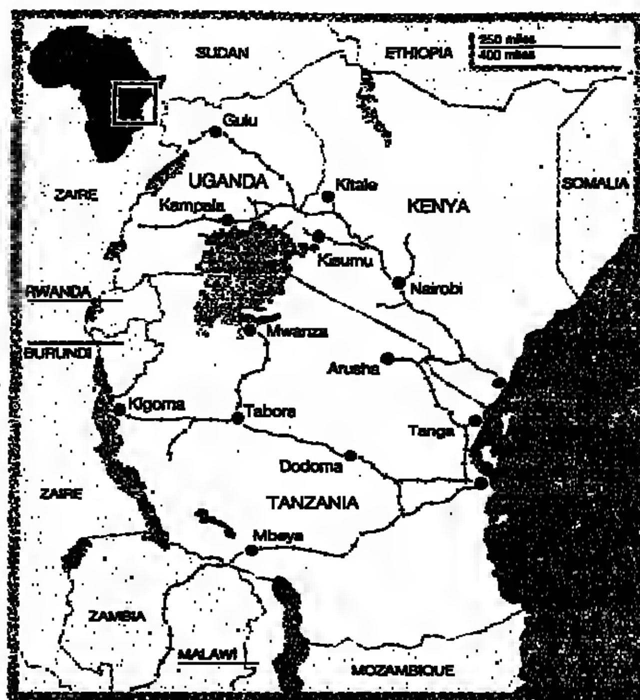
Ensuring that "everyone in the region feels they have a stake in co-operation", as Mr Muthaura puts it, is clearly essential to the success of co-operation. But if it is to get the impetus it needs, the concept must be put into practice with more enthusiasm and imagination.

Donors must do more to tailor their programmes towards regional co-operation. Other regional bodies, such as the Southern African Development Community, must be seen as allies, and not potential rivals.

The resources of the private sector must be more effectively harnessed, whether through faster progress on privatisatioo, or enlisting its support on infrastructural projects.

Foreign investors should be encouraged with a common investment strategy that embraces all three countries, while an effective joint tourism approach is long overdue.

And provided the political will is maintained, economic reforms sustained, and past rivalries do not resurface, the presidents' vision of eventual economic integration, reaffirmed on the eve of tomorrow's Financial Times' conference on East Africa in London, will have a fair chance of becoming reality.



UGANDA

President: Yoweri Museveni.

Independence: October 9, 1962
Parliament: Dominated by Mr Museveni's National Resistance Movement. Political parties were ordered to suspend active operations in 1986, leaving the country a de facto "no-party" state.
Area: 241,139 sq km (including 44,081 sq km inland water).
Currency: New Uganda shilling (Ush)
Exchange rate: 1995 (av) $=Ush968.9
October 30 1996 $=Ush1066.2
Foreign debt: $3.47bn/debt service ratio 44% (1994)
Main exports: Coffee $384m.
Main imports: Machinery and transport equipment $169.0m, manufactures $114.7m (1992).
Main trading partners:
Exports - Spain 23%; France 14%; Germany 14%; Italy 10%
Imports - Kenya 26%; UK 12%; Japan 8%; India 5.5%

TANZANIA

President: Benjamin Mkapa

Independence: Tanganyika: December 9, 1961;
Zanzibar: December 10, 1963;
United Republic of Tanzania established April 26, 1964.
Parliament: The former sole political party, the Chama Cha Mapinduzi (CCM) emerged the largest party following multiparty elections earlier this year. Zanzibar retains its own parliament. Despite the island's degree of autonomy, the union remains an issue of controversy.
Area: 945,087 sq km.
Currency: Tanzanian shilling (Tsh)
Exchange rate: 1995 (average) $=Tsh574.76
October 30 1996 $=Tsh583.65
Foreign debt: $7.442bn/debt service ratio 20.4% (1994)
Main exports: Coffee $115.2m, cotton $104.8m (1994)
Main imports: Machinery and transport equipment $545.1m, textiles and clothing $231.5m (1994)
Main trading partners:
Exports - Germany 8%; Japan 8%; India 8%; UK 5%
Imports - UK 10%; Kenya 9%; Japan 7%; Saudi Arabia 6%

KENYA

President: Daniel arap Moi

Independence: December 12, 1963
Parliament: Dominated by the Kenya African National Union.
Area: 580,367 sq km
Currency: Kenya shilling (Ks)
Exchange rate: 1995 (av) $=Ks56.02
October 30 1996 $=Ks55.83
Foreign debt: $7.27bn/debt service ratio: 33% (1994).
Main exports: Tea $350m; coffee $281m; horticulture $207m
Main imports: Industrial machinery $507m; vehicles $363m; crude petroleum $225m; iron and steel $200m
Main trading partners:
Exports - Uganda 18%; Tanzania 13%; UK 10%; Germany 8%
Imports - UK 13%; Japan 11%; S. Africa 7.8%; Germany 7%; UAE 7%

Message from the presidents

"We the Presidents of Kenya, Tanzania and Uganda have resolved to deepen and broaden the economic co-operation between the three countries for the short, medium and long-term benefit of the people.

"We have therefore created the instrument - the Commission of East African Co-operation - whereby we can now strive for the development of a single market and eventual economic integration.

"With the geographical ties, and our own common history and culture, it is our conviction that in time, the East African region will become one of the most important trading blocks in the entire continent.

"We therefore invite international investors to share in the development of our region and also call on the donor community to support our endeavours."

Daniel arap Moi, Benjamin Mkapa, Yoweri Museveni

Selected African trading blocs

- **COMESA – Common Market for East and Southern Africa** Established in 1993 by members of the Preferential Trade Area (including Kenya, Uganda and Tanzania) aiming at a common market by 2000; a customs union; common external tariff; free movement of goods, people and capital. Address: Lottie House, Cairo Road, Po Box 30051, Lusaka, Zambia, tel (+260 1) 229726, fax (+260 1) 225107.
- **EAC – East Africa Co-Operation** The secretariat was established in March 1996 in Arusha by Kenya, Uganda, Tanzania. A formal mechanism has been set up to promote free trade and regional co-operation; priorities include economic, transport, tariff, telecommunications, energy. Historical antecedents include the East Africa Community 1967-1977, the East Africa Common Services Authority 1961-1967, the East Africa High Commission 1948-1961. Address: EAC Secretariat, Arusha, Tanzania, tel (+255 57) 4253/4, 4256/7/8, 3187, fax (+255 57) 4255.
- **EADB – East African Development Bank** Established in 1967 to promote development in Kenya, Uganda and Tanzania. Address: 4 Nila Avenue, Kampala, Uganda, tel (+256 41) 230021, fax (+256 41) 259763.
- **IOC – Indian Ocean Commission** Established in 1982 to promote regional co-operation in general, economic development in particular. Members are Comoros, France (on behalf of Reunion), Madagascar, Mauritius and Seychelles. Address: Q4, Avenue Sir Guy Forget, BP7, Quatres Bornes, Mauritius, tel (+230) 425 9564, fax (+230) 425 1209.
- **IGAD – Intergovernmental Authority on Development** Established in 1986 formally to co-ordinate measures to combat the effects of drought and desertification, informally to discuss regional political and economic issues. Members are Djibouti, Ethiopia, Eritrea, Kenya, Somalia, Sudan, Uganda. Address: BP2653, Djibouti, tel (+253) 354050, fax (+253) 356994.
- **PTA – Preferential Trade Area** Established 1981, see Comesa.
- **SADC – Southern African Development Community** Established by 10 southern African nations (including Tanzania but not Kenya or Uganda) in 1992 to promote regional economic integration and a fully-developed common market. Address: SADC building, Private Bag 0095, Gaborone, Botswana, tel (+267) 351863, fax (+267) 372848.
- **SACU – Southern African Customs Union** Established in 1969 to provide common pool of customs, excise and sales duties; free trade within union; South African rand legal tender in Swaziland and Lesotho. Other members are Botswana and Namibia. No permanent headquarters.

Continued on page 2 ...

The regional economy: by Tony Hawkins

Integration a winning solution

The three partners have few illusions about the difficulties they face

Regional economic co-operation has a chequered history in sub-Saharan Africa. Grandiose, unrealistic, promises and programmes to establish customs unions, common markets and single monetary areas have come to nothing, leaving institutions created in the colonial days such as the Southern African Customs Union, (South Africa, Botswana, Lesotho, Namibia and Swaziland) and the 14-member CFA Franc Zone as the only successful experiments in regional co-operation.

East Africa promises to be different, if only because, having tried and failed once before, the three partners have few illusions about the difficulties they face.

Furthermore, the cautious approach to the architecture of co-operation – putting monetary union and a common currency on the back burner – suggests that the regional planners have learned from the failures of others, as well as from their own history.

On the face of it the case for economic integration is overwhelming. Bringing together three of the world's poorest economies with a regional income per head of only $300 a year and a total population of some 74m makes excellent sense in terms of providing the critical mass necessary to better attract foreign investment in manufacturing, while enabling companies to exploit scale economies. There should be efficiency gains, too, resulting from tariff and tax rationalisation and the sharing of some common services, thereby eliminating duplication.

Unfortunately, as things now stand, the three economies complement each other to a limited extent. On the export side, only Kenya conducts sizeable volumes of trade with its neighbours. Tanzania and Uganda are locked into commodity-dominated south-north trade patterns for their exports, while becoming increasingly reliant on imports from Kenya. The regional industrial base is similarly heavily skewed in Kenya's favour.

The EAC accounts for only 3.5 per cent of sub-Saharan Africa's manufacturing production – about the same as Zimbabwe with its population of 11m people – and almost three-quarters of this is located in Kenya. Tanzania's share of EAC industrial output is 8 per cent. These numbers illustrate the "polarisation" problem – the tendency for the more advanced member of an economic union to benefit the most from trade and investment, especially in manufacturing.

Kenya dominates intra-regional trade (1995) (K£000)*

	Uganda	Tanzania
Exports to	767,000	631,000
% share of total Kenyan exports	16	13
Imports from	8,000	31,000
Surplus	759,000	600,000

* The Kenyan pound equals 20 shillings. Source: republic of Kenya: Economic Survey 19

Complex formulaa to redress this situation have little appeal given their track record elsewhere. Some, with interventionist leanings, argue that industrial planners should "allocate" manufacturing projects on the basis of assessed comparative advantage, but this risks reversing the regional-wide trend towards market-driven reforms, while simultaneously frightening off foreign investors who, understandably, dislike having their location decisions made for them by bureaucrats. The most attractive solution – though one that might not commend itself to some Kenyan industrialists – is to ensure that the region has a relatively low (15 per cent to 20 per cent) common external tariff.

Not only would this ensure that new industrial investment would flow into competitive activities, but it would also avoid a situation whereby Uganda or Tanzania might feel that they are being forced to buy high cost, indifferent quality imports from Kenya rather than from cheaper suppliers in Asia and elsewhere. Clearly, Kenyan industrialists, already losing market share to South African and Asian imports, (and promised assistance by government in the form of anti-dumping legislation), would be reluctant to see any reduction in their tariff protection, but it could well be a price worth paying for eventual duty-free access to the Tanzanian and Uganda markets.

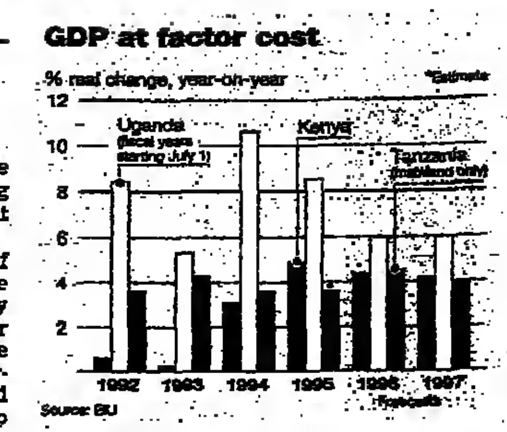
Nor are unacceptable levels of polarisation inevitable. Indeed, one leading multinational notes that it is investing more in Uganda and Tanzania today than in Kenya. Kenya's relative share of the $14.2bn regional market – in GDP terms – has shrunk because Uganda's economy has been growing far more rapidly. As a result, Kenya's GDP now accounts for 48 per cent of the total, down from 53 per cent in 1991 while Tanzania's has fallen to 24 per cent from 28 per cent. Uganda's has jumped from less than a fifth to 23 per cent.

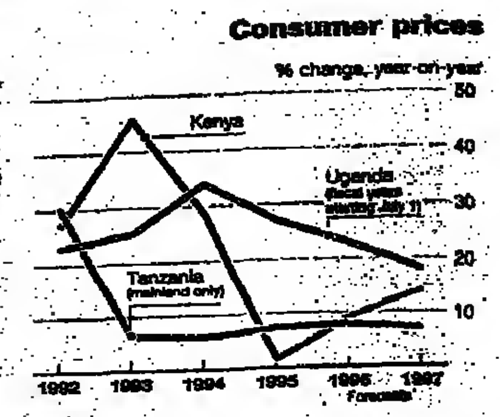
The free movement of labour – which will be difficult to achieve given high unemployment and social distress across the region – might be a partial counter to polarisation to the extent that Ugandan and Tanzanian nationals are able to compete for jobs in Kenya. More feasible in the medium term is the free movement of capital within the region. In embryonic capital markets, a single regional stock exchange with floors in all three countries would make more sense than existing plans for three independent institutions.

Given the scarcity of savings throughout the region, investment efficiency will be enhanced by greater capital mobility, through the banks and the capital markets, enabling Ugandan and Tanzanian companies to tap into the Kenyan stock market. The harmonisation of tax rates – that are broadly similar already – and of investment regimes including export processing zone arrangements would put an end to the zero-sum game competition between the region's investment centres, often fighting among themselves for the same projects.

There would be cost and scale advantages from marketing East Africa as a regional tourist destination, rather than the three countries competing fiercely for the tourist dollar. As a single market, the EAC has a diversity of tourist attractions not found in any one of its parts.

The rundown infrastructure in all three countries provides a once-in-a-lifetime opportunity for a cohesive regional solution, that would attract greater donor and private sector support than existing piecemeal approaches. Uganda and Tanzania's disadvantages on the trade front, could be offset by enhanced co-operation in services.





Uganda could supply hydropower to energy-strapped Kenya, while Tanzania's Songo Songo gas project could also be developed as a regional resource selling power to the Kenyans. Although industrialists believe that Uganda would find it enormously difficult to compete with manufactured imports from Kenya, there is scope for Uganda to develop exports of food and agricultural materials (maize, sugar, cotton) along with processed agro-products. Serious institutional problems will have to be tackled.

While all three countries are members of the Common Market for East and Southern Africa (Comesa), application of Comesa tariff cuts has been uneven, especially in Tanzania. Kenyan industrialists complain that because tariffs on some imports into Tanzania are so high, cross-border trade is largely restricted to smuggled goods. This suggests that the official trade figures understate the one-sided nature of trade links.

The eventual elimination of internal tariffs will be complicated by the requirement that – as members of Comesa – Kenya, Tanzania and Uganda must offer the same trade preferences to all other Comesa countries as well as to their EAC partners.

Tanzania's position is even more complicated. It is also a member of the 12-nation Southern African Development Community, whose members signed a regional trade protocol in August. Sooner or later, it will have to choose between SADC and the EAC.

Given the limited nature of its ties with the south – other than rapidly-growing imports from South Africa and some South African investment – it is likely to focus more on the EAC, especially in the light of President Mkapa's enthusiasm for the project. No regional arrangement can be wholly equitable. There will always be one or more members that benefit more than the others.

Policy-makers need to focus less on how the benefits might be shared and more on boosting economic growth for the region as a whole, primarily by implementing outward-looking trade and investment strategies. Leaders must ask whether any of the three countries would be better off outside the revived EAC than within it. If the policies are wrong – if there is some misguided effort to use the common tariff to create a larger market as a basis for inward-focused industrialisation – then staying outside might be the wise decision.

But if, as seems more likely given the strength of the reform movement in the region, co-operation becomes a vehicle for opening up and globalising the three economies, then regional integration could become a game in which there are winners all round.

East African economy

	Kenya	Tanzania	Uganda	Total
Population (1994)	26	29	19	74
% share	35	39	28	100
GDP (1994) ($bn)	6.8	3.4	4.0	14.2
% share	48	24	28	100
Income per head (1994) ($)	260	120	210	192
Growth of GNP per head (1985-94)	0.0	0.8	2.3	
Manufacturing value added (1995) ($m)	878	107	259	1,342
% share	73	8	19	100
Inward investment stock (1995) ($m)	443	73	23	539
% share	82	14	4	100
Exports (1994) ($m)	1,609	519	421	2,549
% share	63	20	17	100
Imports (1994) ($m)	2,156	1,505	870	4,531
% share	48	33	19	100
Inflation (% p.a. 1985-94)	11.7	33.3	75.4	
Net aid inflows (1991-94) ($m)	3,386	4,326	2,741	10,453
Aid dependence				
Aid as % of GNP (1993)	11.8	38.2	19.7	
Net present value of external debt (% of GNP) 1994	80	167	48	

Sources: World Bank, Unido, Unctad, OECD

Tanzania: by Michela Wrong

Mediation brings rewards

The poorest of the three countries has an average per capita income of just $120

If East African co-operation reaches fruition, no one will be able to claim more credit than President Benjamin Mkapa of Tanzania.

Since winning last October's elections, Mr Mkapa has set reviving co-operation as one of his main objectives, and the recent rapprochement between the Ugandan and Kenyan presidents, previously barely on speaking terms, is largely thanks to his unrelenting mediation efforts.

Dar es Salaam: ships headed for the islands and lower duties

Such commitment verges on the chivalrous. For while landlocked Uganda's interest in sweeping away the barriers blocking its access to international trade seems clear, Tanzania's is far less obvious.

The poorest of the three countries, with average per capita income of just $120, the country's population of 29m – almost the same as Kenya's – offers nothing like the same purchasing power to investors.

Its infrastructure has been set back by the years of former president Julius Nyerere's African socialism, its lumbering bureaucracy remains a brake on development.

Despite being the slowest of the three nations to lower tariffs in line with Comesa recommendations, the country is running trade deficits with both Kenya and Uganda.

The fear among jittery local businessmen is that an embryonic manufacturing sector, already threatened by goods flooding in from the Middle East, China and South Africa, risks being overwhelmed by regional imports once co-operation becomes reality.

"Tanzania is being marginalised. It is becoming a dumping ground for Kenya, which has a stronger manufacturing base and less punitive tariffs on imports," complains a prominent Asian trader. "We must have a level playing field."

Yet Mr Mkapa's behaviour is not so foolhardy as it may seem. While the short term may be risky, long-term benefits could be enormous.

Unlike Kenya, Tanzania boasts huge tracts of unsurveyed, unexploited land available for the leasing.

The discovery of gold is already attracting many South African, British and Canadian mining firms. And Tanzania is just beginning to recognise its failure to market its extraordinary tourist attractions – ranging from the islands of Zanzibar to the unspoilt game parks.

In addition, the development of the Songo Songo natural gas scheme stands to turn the country into an exporter of the power Kenya and Uganda need.

There is certainly no shortage of other projects on offer. Following the successful privatisations of Tanzania Breweries and Tanzania Cigarette, divestiture of the 300 parastatals continues. A conference organised in Dar es Salaam by the UN Development Programme is currently courting foreign interest in investments worth $950m.

But while no one can refute Tanzania's potential, much remains to be done before it can be tapped. Juma Mwapachu, chairman of the Confederation of Tanzania Industries, talks wryly of the "disenabling policies" that have crippled business over the years.

Under Mr Nyerere, whose regime was marked by de-industrialisation and plummeting living standards, it became impossible to thrive legitimately and the seeds of corruption were sown. Liberalisation under President Ali Hassan Mwinyi simply opened up new avenues for shady personal enrichment.

By 1994, the official practice of granting arbitrary tax exemptions to a few well-connected businessmen had reached outrageous proportions, prompting the International Monetary Fund and donors, who provide a yearly $1bn in aid, to freeze assistance.

Elected as the ruling Chama Cha Mapinduzi party's "Mr Clean", Mr Mkapa has attempted to institute the transparency needed for conventional investment.

He set up an anti-corruption commission, established an independent Tanzanian Revenue Authority and set about closing the "Zanzibar loophole", whereby lower duties on the islands lured container ships away from Dar es Salaam and encouraged vigorous smuggling to the mainland.

The heads of graft-ridden parastatals were sacked, and a tight rein kept on expenditure. Inflation, which peaked at 42 per cent in early 1995, fell to 18 per cent in August and gross domestic product is expected to touch 5 per cent this year.

If all goes well, the IMF will resume funding this month, with a desperately-needed $234m structural adjustment facility almost certain to be approved. The World Bank would then advance loans of $100m and the Paris Club of western donors is expected to approve $220m in debt relief, helping to ease a crippling $7bn foreign debt bill.

But Mr Mkapa's campaign has had its problems. A parliamentary committee recently called for Simon Mbilinyi, the finance minister, to be "made accountable" for his decision to award tax exemptions to several importers of edible oil.

And while concerns about top-level accountability remain, the government's drive to clean up revenue collection is hurting lower down. Local businessmen universally rail against the convoluted tax system which is still so complicated after recent reforms it appears to positively encourage evasion.

One British enterpeneur estimates he pays up to 38 different types of taxes while the tourism sector is subject to 17. And because evasion is rampant, the crackdown has increased the burden on a narrow base. "Established companies, particularly highly visible expatriate companies, are being targeted for hundreds of taxes," says Richard Carter of the Commonwealth Development Corporation.

Just getting to the stage of paying taxes is no easy matter. Companies bringing in foreign staff can wait months for work permits. One multinational, in partnership with the government on a key infrastructure project, had two employees briefly jailed for starting work before permits were issued.

Above all the stubborn, if clandestine persistence outside the presidency of a certain mindset – nostalgia for state planning, contempt for profit-making, hesitation to take the initiative – holds Tanzania back.

"There's a civil service, a political leadership that doesn't know how to live with the private sector," says Mr Iddi Simba, a CCM parliamentarian who runs a financial consultancy. "A change in mentalities is called for."

In the days of the East African Community, Tanzania fought hard to be compensated for its disadvantages, pushing for taxes on Kenyan imports and the relocation of Nairobi-based institutions.

The temptation for Tanzania will be to push for such "remedial measures" again, a stance at odds with the vision of East African co-operation.

(... Cont. from Page One)

■ **Kenya:** by Tony Hawkins

Fundamentals looking good

Transforming potential into performance is going to be difficult

With Kenya's elections due in 1997, business people and donors are understandably wary of a re-run of 1992 when fiscal policy lurched off-track with disastrous repercussions.

Although there has been a delay in finalising the IMF's mid-term review of Kenya's three-year Enhanced Structural Adjustment Facility (Esaf) loan, the reform programme is broadly on track with the most important single indicator – the budget deficit – well under control.

Current estimates point to a deficit (excluding grants) of 1.3 per cent of GDP compared with a budget target of 1.7 per cent, while growth is forecast at 4.5 per cent this year, a slackening in momentum largely reflecting the relatively poor rains, continued high real interest ratee and an increasingly uncompetitive exchange rate.

After last year'e dramatic success in bringing the average annual rate down from over 24 per cent in January to 1.6 per cent in December, inflation is on the way up again reaching 7.8 per cent for the year to September and 10.4 per ceot year-on-year.

With Treasury Bills yielding 24 per cent for 91-day money and bank lending rates ranging from 22 per cent to 28 per cent, real interest rates are punishingly high. This is discouraging investment and attracting short-term, hot-money inflows, that are complicating the central bank'e efforts to curb money supply growth while maintaining a competitive exchange rate.

The balance of payments on current account is looking very healthy, with the 12-month deficit falling steeply to only $86m in August from $631m a year earlier. The main reason for this is the much-reduced trade deficit, down by a third at $737m.

This is not all good newe, because whila exports were up some 5.5 per cent at almost $1.9bn in the year to August, tourist earnings have fallen 11 per cent to $436m, while imports are down 9 per cent.

Meanwhile liberalisation is paying off in attracting substantially higher short-term capital inflows, up 12.5 per cent at $524m in the last year. It is clear that confidence in the Kenyan shilling – oo the part of both Kenyan nationals and foreigners – has grown markedly over the past 18 months. So much so that the currency now looks to be somewhat overvalued.

But with the overall balance of payments in healthy surplus ($350m over the last year) and gross reserves up nearly 30 per cent to $1.2bn or more than five months import cover, the fundamentals are looking good.

Kenya's hard-won return to macroeconomic etability is no more than the bare minimum necessary to launch the country on to the sharply-higher growth path needed to combet poverty and ensure stability.

Real per capita incomes have stagnated since the mid-1980s and with a per capita income of $280 in 1994, Kenya is the world'e 17th poorest economy. While agriculture, accounting for almost a quarter of GDP and more than 70 per cent of direct and indirect employment is the backbone of the economy, its growth potential is limited by its erratic climate, and by the fact that two thirds of the land is semi-arid or arid.

Manufacturing, especially agro-processing, and services will have to be the engines of growth in the next decade. But the new world order of globalised manufacturing with its emphasis on technology and skills rather than low-wage labour – Kenya's chief source of competitive advantage – offers scant encouragement for thosa who see the country joining the ranks of the Asian tigers.

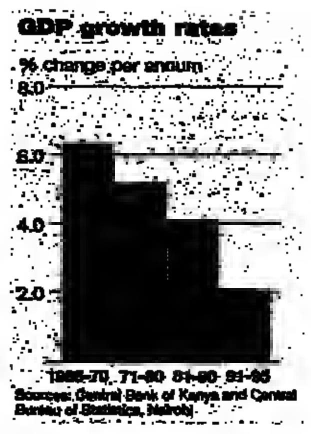
Indeed, the eteep increase in South African imports – Pretoria has come from nowhere to become the country'e third largest supplier after the UK and Japan – and demands by industrialists for anti-dumping measures, suggest that Kenyan industry has some way to travel before it becomes globally competitive.

. This is all the more obvious given the constraints on economic growth – the two main ones being infrastructure, especially power, which is being rationed, thereby disrupting industrial production and tourism, but also transport, telecommunications, water, and corruption.

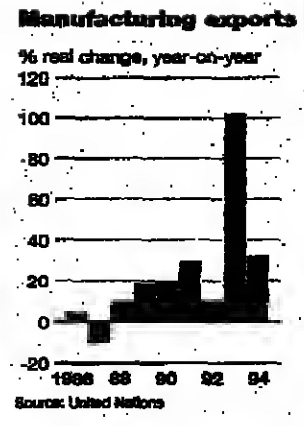
At macro level, the combination of liberalisation and deregulation, donor and media vigilance, and the reforming zeal of Finance Minister Musalia Mudavadi and Central Bank Governor Micah Cheserem – the two musketeers of reform – have done moch to limit the scale of corruption, but at other levels, auch as the tender process, corruption poses a very serious threat to the economy.

The privatisation programme continues to be a bone of contention among donors who want both speedier progress and greater transparency. In the last three years Kenya has made enormous progress along the reform trail. It is doing better than many outsiders feared while still failing to meet the targets that its friends and well-wishers believe it capable of reaching.

Since 1991, real GDP had grown a mere 2 per cent annually and per capita incomes have fallen 3 per cent.



Sources: Central Bank of Kenya and Central Bureau of Statistics, Nairobi



Source: United Nations

No country whose population is increasing at the rate of 2.9 per cent a year and whose living standards have stagnated for a decade can hope to maintain political stability on the basis of such a track record.

Given its limited natural resource base – agriculture and tourism – Kenya has become heavily dependent on its geographical positioo and existing industrial base, which make it the logical growth pole for East Africa, and its huge potential in the form of its relatively well-educated, easy-going workforce.

While the launch pad of macroeconomic stability may be in place, the other ingredieots necessary for sustained growth of 6 per cent to 7 per cent annually are not. Tiger status may yet come, but not in the next five years.

■ **Uganda:** by Michael Holman

Recovery is continuing apace

After its remarkable revival, Uganda needs to expand its export base

When President Yoweri Museveni visited Tanzania and Kenya recently, two stops were high on his agenda – the ports of Mombasa and Dar es Salaam, both undergoing rehabilitation under new management.

For landlocked Uganda, if regional co-operation is about anything, it is about securing efficient outlets to the sea and eliminating the inefficiency and corruption that adds to freight charges and import bills.

The fact that progress is being made is good news for Uganda's business community, playing their part in what has become one of Africa's most remarkable recoveries.

The country once synonymous with disaster now boasts the highest economic growth rate in sub-Saharan Africa. Ten years after President Museveni and his National Resistance Movement took office, the revival of a nation devastated by the despotic regime of Idi Amin and the war to overthrow him, has continued apace.

Uganda's GDP growth has averaged 6 per cent annually since 1987, topped 8 per cent during the year ending June 1996, and is set to perform well again this year.

Inflation is in single figures, the currency is freely convertible, and foreign exchange reserves equal four months import cover.

Meanwhile, the return of Ugandan Asians expelled by the Idi Amin regime in 1972, coupled with greater general confidence in the economy, has led to the repatriation of flight capital at a rate of almost US$300m a year over the past three years, according to IMF estimates.

No wonder, then, that the resident International Monetary Fund (IMF) representative in Kampala recently called the record "outstanding". She might have added, however: "But now comes the hard part."

If Ugande is to sustain high growth and replace aid by foreign investment, it must start expanding an export base reliant on a handful of cash crops, improve an infrastructure in which inadequate power supplies are a big constraint, and make an import-substitution manufacturing sector competitive in the region and beyond.

The tea estates have the potential for boosting growth

Further progress with the difficult task of trade liberation is part of the price of continuing approval from the Fund and the backing of the World Bank and other donors worth US$500m a year. Tariff reform is also at the heart of East African Co-operation, bnt most Ugandan business people display little enthusiasm.

Uganda's manufacturers, only now reaching the production levels they enjoyed before the years of anarchy and civil war, feel they need more time to prepare for the competition from Kenya in particular, as well as from trading partners further afield, that reduced trade barriers will bring.

Private investment over the past few years has concentrated on reviving a manufacturing sector dominated by import substitution, and local manufactures say they need time to consolidate.

"We need two or three more years of protection before we are ready to deal with the challenge of Kenyan imports," says Roni Madhvani, head of Nile Breweries.

His views are echoed by the Uganda Manufacturers' Association, whose officials point to the already massive trade deficit with Uganda'e neighbour.

In 1994, Uganda imported goode worth about $172m from Kenya, bnt Kenyan imports from Uganda totalled only $3.2m. The government itself has concerns about the impact of trade liberalisation, namely the impact on state revenue. About half of the Ugandan government revenue comes from various duties and taxes on imports.

Lower tariff barriers mean less revenue, hence the efforts to expand the country's tax base by introducing value added tax – a move that led to a strike by traders and shop-owners in Kampala, forcing the government to withdraw the tax.

Uganda's medium to long-term potential lies not in its modest manufacturing sector, argue supporters of East African co-operation, but in food production, agro-processing, tourism and power supplies.

Given its fertile land it could become an important basic food supplier to neighbouring Kenya, where two thirds of the land is arid or semi-arid.

The second area is power, where plans to expand the country's capacity could provide a surplus for sale to Kenya.

Uganda's tourist potential, as yet barely tapped, could also be more readily realised if plans for joint marketing of the East Africa region and easier movement of tourists between the three countries are fulfilled.

And although Uganda has a fledgling stock exchange, local companies could raise capital on the Nairobi market if existing barriers are lifted as economic co-operation takes hold.

Further growth can come from the revival of the country's high quality cotton crop, rehabilitation of the tea estates, and development of non traditional agricultural exports.

But there is a cloud on the horizon. Although Mr Museveni gained an overwhelming victory in the presidential poll last May, when he won 75 per cent of the votes, and his party NRM was was successful in the parliamentary elections in June, he faces a growing security problem in northern Uganda.

The rebels, a bizarre religious sect known as the Lord's Resistance Army, and supported by neighbouring Sudan, have been able to exploit ethnic rivalries, historical grievances, and a sense of neglect highlighted by the contrast with the buoyant south.

No end is in sight, and the danger is that Mr Museveni will be distracted from his commitment to implement the principles of East African Co-operation as he grapples with security problems in the north.

■ **History of co-operation:** by John Githongo

Century of borderline deliberations

The process of integration has been continuing for more than a century

By the time of independence in the early 1960s, economic integration in East Africa was the most sophisticated on the African continent. Indeed, it was well ahead of efforts to create what is the European Union today.

External trade, fiscal and monetary policy, the transport and communications infrastructure, and university education all operated within the framework of a single organisation.

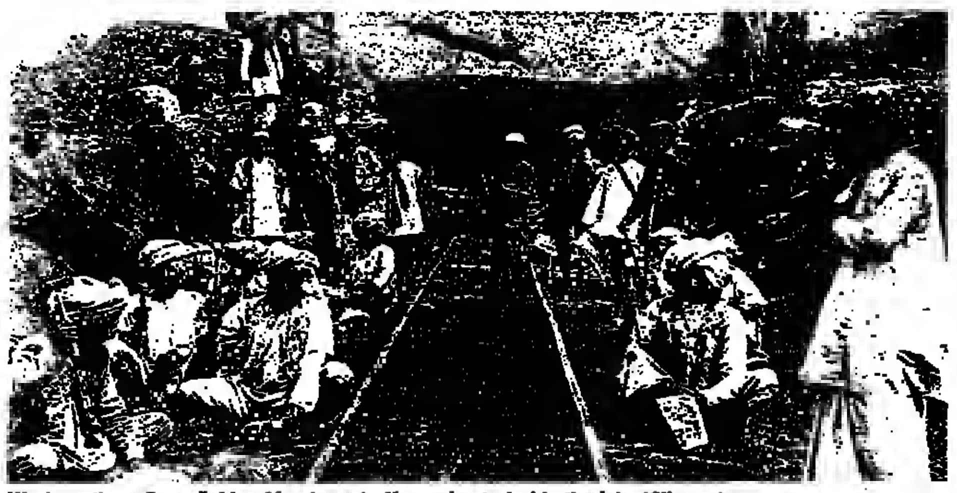
In a sense this process of integrstion had started in the late 19th century, when the British decided to build a railway linking the coastal city of Mombasa in Kenya to Uganda's capital Kampala. In the early days, the focus of integration was common services between British territories.

In 1905, the colonial authorities established the East African Currency Board and this was followed by a Postal Union in 1911. An East African Federation with Nairobi as its capital was already popular among British settlers in Kenya by 1928 when the Hilton-Young Commission advised against it and made recommendations that led to the institutionalisation of common services instead.

In 1940, the Joint Eest African Board was formed to handle tax collection and the cause of integration was given a significant boost in 1948 when the East African High Commission (EAHC) was established to manage the common services.

Institutions that were to become part and parcel of the way all East Africans understood the concept of an integrated region in the post-independence era came into being at this time – the East African Railways and Harbours, East African Post and Telegraph, Makerere College, and others.

With Tanzanian independence in 1960, the EAHC was disbanded and replaced by the East African Common Services Organisation (EASCO). As a result of the euphoria that accompanied the movement towards independence across Africa, the idea of East African integration acquired a political character.



Work on the railway linking Mombasa to Kampala started in the late 19th century

On June 5, 1961, Julius Nyerere, the president of Tanganyika (Tanzania), and the prime ministers of Kenya and Uganda, Jomo Keoyatta and Milton Obote, signed a declaration pledging themselves to political federation.

Opposition within Uganda, together with ideological differencee that were only starting to emerge, killed the idea of federation.

But with the signing of the Treaty for East African Co-operation in 1967 the East African Community (EAC) was created to "strengthen and regulate commercial and other relations of the partner states".

Ugandan and Tanzanian fears that they would be dominated by Kenya's more developed economy was reflected in the tone of the treaty and it affected the way the EAC'e institutions were put together.

A tax transfer system to protect Tanzanian and Ugandan industry from Kenyan competition was established, among other measures, though Kenya continued to dominate economic activities relating to the common services.

President Nyerere's Arusha declaration of 1967 set Tanzania firmly on the socialist path towards development. This created an ideological rift with "capitalist" Kenya and was one of the reasons the Community failed.

A particular sticking point was the fact that foreign investment was an integral part of Kenya's development process. The Tanzanians saw intra-EAC trade as benefiting Kenya-based foreign companies.

Another problem was the fact that the treaty centralised control of the EAC in an euthority made up of the three heads of state.

Progress was tightly linked to personal relationships between the three presidents. In many ways, the overthrow of Obote's government by Idi Amin in January 1971 sounded the death knell for the Community.

Obote fled to Tanzania and an ontraged President Nyerere refused to recognise the new regime in Uganda. The anthority never met again and the Community finally collapsed in 1977.

It can be argued that the EAC was a colonial creation that post-independence leaders lacked the will and capacity to sustain. From this perspective, its gradual disintegration started at independence. The fact that the 1967 treaty did not include any conflict resolution modalities was also a fatal flaw.The fundamental ideological differences, especially with regard to foreign investment, only compounded destructive resentment caused by the feeling that tbe EAC was unable equitably to distribnte its benefits between the three, member states.

Perhaps the greatest lesson learned from the EAC experience is about East Africa's *wananchi* (ordinary people).

One of the starkest contradictions of the community was that even when the rhetoric of integration was at its highest pitch, governments were busy placing stumbling blocks in the path of East Africans trying to "co-operate".

After Independence, for example, it became easier for East Africans to enter many European countries than it was to cross their East African borders to do business.

Unfortunately, archaic laws still brand many of the most dynamic of these individuals as smugglers and illegal aliens to be harassed by authorities.

The current integration initiative in East African can be viewed as the region's leaders and civil servants desperately trying to catch up with their own hardy people who have always treated borders with the contempt they deserve.

John Githongo is a columnist with The East African newspaper, based in Nairobi.

■ **Transport**

Rough ride for travellers

The rail network has been neglected and the road system poorly maintained

If East Africa were a body, its arteries would be so clogged that any doctor would have cause for concern. The slow pace and high cost of transport are among the most fraquent complaints made by industry across the region.

"It takes as long to move a container a few hundred kilometres by road from the port in Dar es Salaam to our factory in Arusha as it did to get it all the way to Tanzania from Europe," complains Christian Engsted, the East Africa president of the Swedish-Swiss conglomerate ABB. "This pushes up costs and makes it very difficult for us in the region to be competitive."

Kenya and Uganda present similar difficulties. Travellers and business face an unenviable choice between a rail network neglected for generations and a road system in which main trunk routes are poorly maintained, sometimes unsafe and often choked with traffic. Regional links are further impeded by lengthy bureaucratic formalities at border controls.

Tackling the transport problem is one of the main priorities established by the new East Africa Co-operation. Some successes have already been achieved. In May, the region's three main rail authorities agreed to set up a joint secretariat to advise on technical issues. There are plans for a single maintenance facility for the region, based in Uganda, to be operating by 1998.

Cross-border rail and ferry passenger services between Kenya and Tanzania have resumed after an 18-year break. East African nationals enjoy their own immigration queue at borders, with proposals for a common travel document under discussion.

Much, however, remains to be done. It is nearly 100 years since the railway first opened East Africa to international trade. The network formed the foundation for the region's economy, not only making Uganda accessible but also uncovering the agricultural potential of the Kenyan highlands. Furthermore, Nairobi, the commercial centre of East Africa, first became a trading centre because of its strategic location on the line from Mombasa to Lake Victoria.

These days, it can take up to six weeks to bring imports from the coast to Kampala by train; rail handles barely a third of freight traffic along the route. "The demand is there," according to the corporate planning manager for Kenya Railways, Zacharia Murage, "but our capacity is completely exhausted." Mr Murage estimates it will cost some Ks6bn ($100 million) to turn the organisation into a modern, efficient business. "There is no sign," he says "of where that kind of money will come from."

Government strategy across the region is to restructure rail corporations along commercial lines, farming out non-core services auch as locomotive maintenance, catering and cleaning. Kenya's transport and communications minister, Wilson Ndolo Ayah, Insists, however, that rail must remain a public service, promising subsidies to keep passenger fares down.

The poor health of the region's state-controlled railways has pushed busioess on to the roads and into the hands of private haulage companies. Journey times, although far shorter, are nevertheless neither swift nor reliable. Heavy use and an absence of maintenance have left vital trunk routes littered with crater-like potholes. This has encouraged reckless driving techniques resulting in one of the highest accident rates in the world.

However, there is some progress. Tanzania, which has the poorest network of tarred roads and an unhappy record on previous rehabilitation projects, is hoping to involve the private sector in a new policy initiative expected by mid-1997, according to transport and communications mineter William Kusila.

After months of wrangling over the Kenyan government's transport agenda, the World Bank has now agreed to release $50m for a road strengthening, widening and maintenance scheme for the Mombasa-Nairobi blghway. However, work will not begin for several months, and there are no plans to extend the project east to Malaba on the Uganda border, or on to Kampala.

Thus, while in particular sectors efforts to arrest the decline in the transportation infrastructure are taking place, the environment looks for some considerable time certain to test the patience of traders and travellers alike.

MW and AG

■ **Telecommunications:** by Michela Wrong and Antony Goldman

Better connections

Bad management and low investment ratios are reasons for the poor service

About the most awkward place to telephone in Tanzania is the northern town of Arusha, also the headquarters of the East Africa Co-operation secretariat. "It's a nightmare," a government official in Kenya confided. "We obviously can't arrange our meetings by mail, but often it's just impossible to get through." The problem is by no means untypical.

From Nairobi, Dar es Salaam and Kampala, it is always easier to call abroad than to ring the interior; it is quicker to drive the 45 minutes from Uganda's international airport at Entebbe to the capital than to wait for a line.

Even international calls from luxury hotels can be problematic. At peak times it may sometimes take 15 minutes of repeated dialling to reach London from Nairobi. Furthermore, the costs are staggering. Charges for a three-minute long-distance call from Tanzania are around $30.

It was not always so. Twenty years ago, a single, efficient if basic cable network covered Kenya, Tanzania and Uganda.

Poor management, political interference and low investment ratios are some of the factors behind the precipitous decline of telecommunications infrastructure and services across East Africa in recent years.

An industry analyst describes the state-owned Kenya Posts and Telecommunications Corporation (KPTC) "as an opaque bureaucracy vulnerable to spectacular corruption", while Tanzania's recently restructured telecommunications company "still suffers from its past, when new standards for sloth and incompetence were set".

Governments are beginning to acknowledge the scale of the problem. Kenya's communications minister, Wilson Ndolo Ayah, promotes corporate restructuring, joint venture projects and high speed data links. The formerly socialist ruling party in Tanzania began a process of privatisation in 1994 which could soon leave private enterprise with a controlling interest in telecommunications.

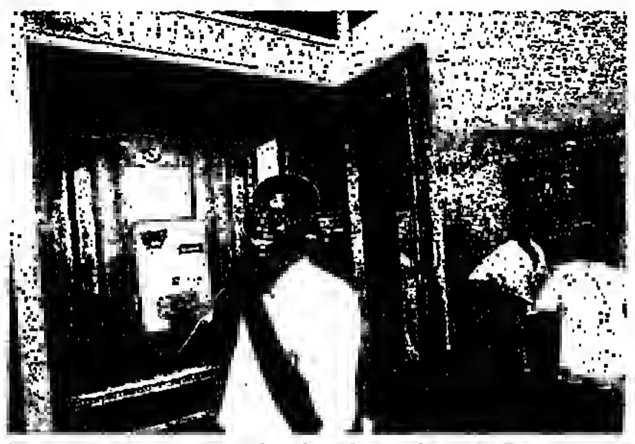
Uganda has gone even further. Two private companies already compete in offering internet services. The authorities are preparing to offer a second national network operating licence to rival the old, parastatal monopoly. Bids of around $80m are expected from consortia thought to include leading international companies such as Southwestern Bell and Deutsche Telekom.

While the regional market is tiny – penetration in Kenya of barely 1 per cent is several times higher than its neighbours – new technology is providing opportunities the private sector is eager to exploit. With a satellite dish and wireless switching, one independent operator can expect to recover costs within 18 months from a green field site with a potential subscriber base of just a few hundred.

Officials are also again considering the merits of closer co-operation. "We have to find better ways of working together," says John Mutai, managing director of KPLC. "If we in the region can talk to each other more easily, we can trade better, and that will help promote growth and development."

There are other benefits. Both the investor community and donors have expressed interest in supporting a proposed, $100m digital link between Kampala, Nairobi and Dar es Salaam.

Obstacles to growth, however, remain. Tanzania's $250m, five-year Telecommunications Restructuring Programme – due for completion in 1998 – has included the installation of many new lines. But while the new numbers allotted are published in newspapers, a comprehensive new directory



The new system may work but there is no telephone directory listing numbers

will not be published until next year. "The advantage of the new system is that it works, the problem is you have no one to call," quips one local diplomat.

And while erratic services have generated an enormous demand for mobile telephones in the region's three capitals, much of it remains unfulfilled. Hopeful operators sey they remaln thwarted by old-fashioned political sensitivities and incompetence.

In Kenya, for example, where the pace of commercial restructuring has been most conservative, the authorities plan to sell only a third of KPTC shares, and even then, not before 1999. "This is a strategic resource" says Mr Mutai. "We will not allow it to slip into the hands of foreigners."

Governments, however, are undaunted. Even in Nairobi, Mr Ndolo Ayah promises a new, integrated regional telecommunications market free from state control. "In five years" he predicts, "we shall be no more than regulators preparing the playing field for a thriving commercial industry."

■ **Stock markets:** by Joel Kibazo

A step back to yesterday

Progress has been hampered by outdated regulations and false starts

Overseas investors wishing to invest in the three countries of the East African Co-operation could be excused if, after examining conditions there, they gain the impression that tbey have stepped back in time.

Kenya, Uganda and Tanzania may bave undertaken economic restructuring over the past decade, but progress in developing their financial markets has been hampered by outdated regulations, false starts and continued hostility towards foreign investors.

Kenya, the region's biggest economy, is the only country with a fully-fledged stock market. The Nairobi stock axchange was founded in 1954, and ls now Africa'e fourth largest with a market capitalisation of around $1.8bn. The market registered the biggest gains in the emerging markets sector in 1994 as local investors bought stock ahead of the relaxation of rules for foreign investors.

However, that advance also proved to be its undoing. Foreign investors shied away in 1995 unwilling to pay for what they considered to be overpriced stocks.

This year was expected to be different. The sale of 48 per cent of newly-privatised Kenya Airways in June was forecast to revive the fortunes of a market that had spent tha previous 18 months in decline. The offer not only marked the biggest flotation on the bourse but also raised the market's capitalisation by 6 per cent. But that was by no means the only issue and the Kenya Airways sale was quickly followed by the government sale of part of its holdings in Kenya Commercial Bank (KCB) and National Bank of Kenya (NBK).

After an initial advance following the Kenya Airways sale, the market returned to its downward trend and figures from the exchanges itself show it has declined by 12 per cent since the beginning of this year.

Analysts cite stock indigestion as one of the reasons for the decline. "This is a market that cannot cope with the sale of so many big issues in such a small space of time," said Christopher Hartland Peel, Africa equity analyst with Standard Bank.

But others point to high interest rates as e factor in the market's decline. They say prevailing rates mean investors would rather put their money in treasury bille, which are yielding about 24 per cent, than in shares.

For foreign investors, the market's regulations have also acted as a barrier to entry causing a further decline in the index. Overseas investors can only buy up to 40 per cent of a locally-owned company, while regulations prevent international portfolio investors from buying stock in foreign controlled companies listed on the exchange.

John Legat, of LGT Asset Management, said: "The Nairobi market is cheap, the economy is doing well and earnings are OK. It represents e reasonable investment opportunity but the regulations are not making it easy for investors like ma who want to put money in that market."

Jimnah Mbaru, chairman of the Nairobi Stock Exchange, sounds equally frustrated when asked about the issue. "We have been trying to get the rules changed and have tried informal as well as formal approaches to the authorities here, but all I can say is we are still waiting."

Few such problems have dogged the privats sector and last month saw the launch of the Acacia Fund, a private equity fund to invest in privata sector Kenyan companies. CDC, the UK's development finance institution, is the main sponsor of the Ks1bn fund. Michael Turner, of CDC, said: "I believe we are going to have a wide range of good proposals from companies in which we can invest in the private sector."

But if would-be investors in the Kenya market are frustrated by outdated regulations and problems of settlement, no such market even exists in Uganda. Having announced last year that the stock exchange will be opened in February this year, all that has happened are postponments to May, Juns, August, December, although even that date is unlikely to be met.

But delaying the introduction of e market is not necessarily seen as a negative. Miles Morland, of Blakeney Management, which specialises in developing stock markets, says: "It is much better to delay the opening of a market than to go ahead before everyone concerned is ready as was the case in Zambia. There was little domestic demand in that market and, what is more, the little stock that existed was overpriced."

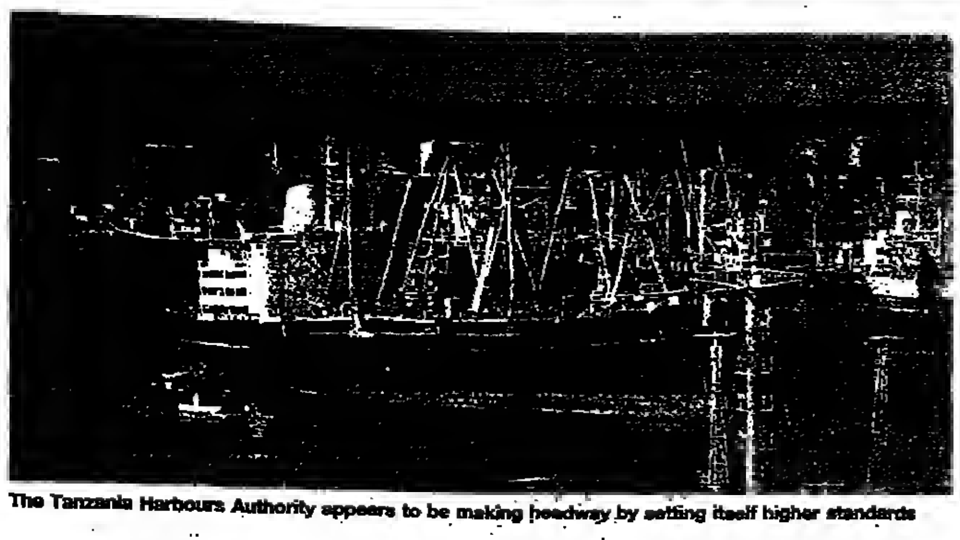
Simon Rutega, co-ordinator of the stock exchange project at the Bank of Uganda, said: "We have had a lot of dalays but we want to get the framework correct." He added: "We want to make our market as attractive as possible to foreign investors so we are going to make this an open market without any restrictions."

But Ugande's plans for an open and free stock market are not shared by capital market authorities in neighbouring Tanzania. Having announced that the long-delayed stock exchange is to open in December, the Capital Markets and Securities Authority also dropped a bombshell when lt said foreign investors ars to be barred for the time being.

Fratern Mboya, chief executive of Tanzania'e Capital Markets and Securities Authority, said: "We need to gauge the local market. So we shall not allow foreign investors in the first companies to be listed. We also need to work on the laws that would affect their involvement."

Mr Legat who is normally anthusiastic about the region, said simply, "I will have to go somewhere else."

In spite of what appear to be contrasting philosophies, the heads of the three exchanges have already started discussions on closer co-operation. Issues under discussion include the possibility of cross-listing, harmonisation of listing procedure, and a common training programme for brokers.



The Tanzania Harbours Authority appears to be making headway by setting itself higher standards

■ **Ports:** by Michela Wrong and Antony Goldman

Flow eases at the two gateways

An upheaval is under way to improve service at Mombasa and Dar es Salaam

The Swahili phrase *toa kitu kidogo* ("tkk" for short) is all too familiar to importers bringing goods into East Africa.

It means "give a little something" and until recently, it was necessary to do just that to get containers through the "toll etations" – the police and customs checks at the ports of Mombasa and Dar es Salaam.

Theoretically gateways to the region, the two ports had become barriers to trade, rife with theft, mired in administrative incompetence and official corruption.

A thorn in the side of landlocked Uganda, which is dependent on them for supplies, they were a constant focus of complaints from businesses and a serious concern for the International Monetary Fund, which is determined the Tanzanian and Kenyan governments sbould improve revenue collection.

An upheaval is now under way. Mombasa is under new management, following a January purge that led to the ousting of a score of top officials at the transport ministry, customs and Kenya Ports Authority, which lost its managing director. The management of the container terminal has been handed to a UK team from Felixstowe which will run it for the next two years.

In Dar es Salaam, no top-level sackings have occurred. But having signed a performance contract with the government, the Tanzania Harbours Authority eppears to be making headway simply by setting itself higher standards.

"We're seeing a consistent improvement in just about everything," says Mr Paul Thomson, whose company, East African Conference Lines, represents 10 shipping lines. "Hopefully, most of our problems will soon be behind us."

Mombasa and Dar es Salaam also fell victim to the region's economic upturn. Liberalisation in Uganda and Tanzania brought a flood of imports into the ports, whose ageing facilities were unable to cope.

Productivity fell to its lowest level in 1994, with Mombasa logging 79 container moves per 24 hours, compared to the 600-700 seen in European ports. By mid-1995 the container build-up had reached the point where both ports were near gridlock.

Technical problems were only half of the story. Bureaucratic procedures obliging clearing agents to visit innumerable offices – around 25 in Mombasa – amplified opportunities for *toa kitu kidogo* and further delays.

Clearing an unloaded container – a procedure that can take less than 24 hours in Europe – required two to three weeks in Mombasa and four weeks in Dar Es Salaam.

Add on rail and road trips and border checks and a Ugandan importer could wait four monthe for his goods.

National antagonisms did not help. "The old team used to give the impression they were doing Uganda a favour by allowing our goods through port," commented Yoweri Museveni, the Ugandan president, on a recent trip to Mombasa.

Ambitious presidential plans to turn Mombasa into a *free port* have now been put to one side while Robert Brenneisen, the new chairman of Kenya Ports Authority, sets himself two years to resuscitate the enterprise.

One of his first moves has been to raise charges on importers who were exploiting the port's inefficiencies to use Mombasa as a cheap storage spot. "Importers were acting as speculators, leaving cars here while they found buyers. So we doubled the charges and it had a dramatic effect," he said.

With new equipment installed and old cranes being renovated, the plan is to bave productivity, now hovering around 260 moves per 24 hours, up to 350 units in six months and 375 units in a year. Clearing agents note with approval that cargo now stays as little as five days in port.

Although Mombasa expects to log a profit of $15m this year, it is still only working at a third of its 20m tonne a year capacity. Documentation remains a problem. "Together with customs, we are working on integrating our computer systems and that should lead to faster, more efficient handling of documents," says Mr Brenneisen.

His counterpart in Dar es Salaam, Samson Luhigo, has managed to boost performance at his far smaller port from 163 moves at the start of the year to 350 moves thanks to improved planning, security and new equipment.

The time containers spend in port has been cut to 17 days and the anthority, which made a $500,000 loss in 1995, expects a profit of $25m this year. "We believe improved standards are the panacea for corruption," says Mr Luhigo. "If we can achieve them there will be no need for anyone to ask for a bribe."

The closing of "the Zanzibar loophole" – lower duties which lured much of the trade to the spice islands and encouraged smuggling – is expected to bring more traffic to the mainland. Dredging the entrance channel to ensure 40,000-tonne ships can enter, whatever the tide, will eliminate a basic structural shortcoming.

For both anthorities, improving performance and cutting down on paperwork can only achieve so much. Until containers can be evacuated more quickly by rail and road, major expansion remains problematical. A distant dream is the establishment of a unit train which would take containers from Mombasa to Kampala.

Robert Brenneisen: doubled charges for storage

Providing a constant spur is the realisation that if they cannot improve, some trade will go elsewhere, geography notwithstanding. Dar es Salaam has already seen cheaper ports in South Africa and Mozambique steal much of the trade that in the apartheid era went via Tanzania to Zambia and Malawi.

Uganda, which brings more than 1m tonnes a year through Mombasa, has warned that it is willing to shift to the longer route through Tanzania if Dar es Salaam offers a better deal. And Dar es Salaam itself will face a growing challenge from Tanga, currently under refurbishment and ideally placed to serve the Kilimanjaro region. When it comes to ports, East Africa will be best served if competition, not co-operation, is the name of the game.

■ **Power**

Future looks brighter

Co-operation in the energy sector is one of the priorities laid down

When President Yoweri Museveni last month threatened to cut power supplies from Uganda to Kenya, he drew attention to a dispute which reveals both the problems and opportunities presented by regional co-operation in the energy sector.

The problem is that the region no longer produces eufficient power for its needs. The agreement which todey angers Mr Museveni was drawn up in 1954, when output from the Owen Falls hydroelectric plant far exceeded demand not only in Uganda, but also in Kenya and Tanzania.

The Owen Falls scheme was itself the product of an earlier era of co-operation, when the East Africa Power and Lighting Corporation planned and provided for the region's collective requirements. Uganda complains it is tied to an anachronistic contract to supply energy to Kenya for only a third of what it now costs to produce. "I have asked [Kenya's president] Moi," Mr Museveni said, "to pay me according to the market rates."

Officials in Nairobi are conciliatory. "We are happy to talk about tariffs," responded the managing director of Kenya Power and Lighting Corporation (KPLC), Samnel Gichuru. "But the problem really is one of supply. We all face serious deficits at home, which means there is no incentive, even on a commercial basis, for Uganda to export power."

Across the region, supply has been falling despite increasing demand. Kenya's 50MW shortfall – around 8 per cent of requirements – has prompted the authorities into adopting an energy rationing programme. Load shedding and black-outs are also familiar in Uganda and Tanzania.

And as factories operate below capacity, industrial growth is also compromised.

The now separate power authorities in the three countries acknowledge that low investment in infrastructure, poor maintenance and a lack of management transparency, especially over the past decade, are the main causes of shortage. In Kenya, donor support for the energy sector, frozen since the scale of corruption surrounding the Turkwell dam project became clear in 1990, is only now beginning to return. Eight senior officials of the state-owned Tanzania Electricity Supply Company (Tanesco) were suspended in September in connection with the alleged misuse of funds.

Kenya has World Bank support for a billion dollar, long-term investment programme. Officials expect Japan'e overseas development agency, the OECF, to pledge $279.4m for the Soodu Mireu 60MW hydroelectric plant and the 75MW Kipebu geothermal plant. Emergency measures to address the worst problems in Nairobi and on the coast are expected to be in place before next year's elections. "It takes time to turn the situation around," Mr Gichuru admitted. "But the worst is over and things are already moving."

Uganda is looking to exploit better its hydroelectric potential. While contractual problems are delaying development of the Owen Falls plant, in January Kampala signed a $450m agreement with Nile Independent Power Limited to build a 340MW facility near Jinja. Work on the project, which has attracted considerable US interest, is dne to begin in 1998.

More innovative still is the $300m, 150MW Songo Songo gas project offshore Tanzanie, expected to come on etream in 1998. Agip and Amoco abandoned the coral island site in 1974 when they failed to discover oil. Nearly 20 years later, with the use of gas as a fuel far more fashioneble, two Canadian companies, Ocelot and TransCaneda, came in to construct and operate the project to tap and process the natural gas from Songo Songo, pump it underweter the 25km to the mainland and then the 210km north to the capital, Dar es Salaam. There it will feed into the Ubongo power plant, replacing imported liquid fuel to power five turbine-driven generators.

The financing of Songo Songo is also considered unique by the World Bank. Normally, its funds are channelled through parastatals. Here, they are going via the International Development Authority directly into an entirely private sector project. "If Tanzanians can make this work," the project's manager Jim McCardle believes, "it will do a lot to bring new investment into the country."

Mr McCardle expects Songo Songo to yield other beoefits. "Once this first major investment is made," he explained, "it can easily be expanded with a much more modest outlay and swifter time lag. There's enough gas for 20 years and we are confident there's more to be discovered. We could even extend the pipeline up from Dar es Salaam across the border to Mombasa."

There is little sign yet, however, of a genuine commitment to promote co-operation in the energy sector, one of the priorities laid down by the new East Africa Co-operation.

While Tanzania signed a memorandum of understanding with Kenya in 1992, earlier this year it began talks with Zambia over the possibility of linking into the southern African power grid.

The private sector believes it may be the instrument by which a regional electricity market can onca more ba realised in East Africa. "A single grid makes so much economic sense," argued Christian Engsted, Eeet Africa president of the Swiss-Swedish conglomerate, ABB, "but this is politically sensitive for the states concerned. We can be more efficient and concentrate on the commercial imperatives behind integratioo."

MW and AG

■ **Interview:** the executive secretary of the Secretariat of the Commission for East African Co-operation

United by a common policy

Ambassador Francis Muthaura explains how the new community will work


Francis Muthaura: renewed co-operation is inevitable

How does the new secretariat compare with the East African Community of old?

The East African Community was really like a federal government: railways, ports airlines, posts and telecommunications, customs, all came under the same administration. The headquarters and general services secretariat was meant to occupy this building, with one wing for each of the three countries. We will be sticking to one floor and our staff will not exceed 30. Member states are being strict: they want the secretariat to be small but highly professional.

What do you regard as the crucial factors that triggered the community's collapse?

Authority was shared between three heads of state and after 1971 and the coup in Uganda, the leaders could not meet because Julius Nyerere refused to talk to Idi Amin. So from 1971, there was an accumulation of problems that couldn't be resolved. In the background was the cold war: external forces played a role in pushing the countries apart. Kenya was being encouraged to be more capitalist, Tanzania was being encouraged to be more socialist. Also, there definitely was a feeling that Kenya was doing better out of the arrangement. Uganda's economy had virtually collapsed, Tanzania's economy had been hit by socialism. Steps were taken to try to even things out – in 1967 it was agreed that many of the community's headquarters should be moved out of Nairobi, and remedial measures, such as transfer taxes on Kenyan goods, were introduced. But the feeling persisted.

Why should co-operation work this time?

At the moment, there's no ideological divide between the three countries. All three are following market-oriented policies; they have accepted the need for privatisation and liberalisation. We have a lot of expertise to build on – even Europe has not yet reached East Africa's intended level of co-operation. One of the things that caused problems the first time was joint ownership of enterprises. Governments are like people when it comes to property – they tend to get possessive. Now the aim is to create an enabling environment for business, including allowing power, road and telecommunications linkages, rather than joint enterprises. We are concentrating on harmonisation of policies, but the key actors will be private. The driving force this time will be individuals, not parastatals.

Isn't it possible that tension between individual presidents could re-emerge as a problem? Kenyan President Daniel arap Moi has repeatedly accused Uganda of plotting his downfall.

You may be reading a lot into things that don't matter. You should look at the frequency with which these heads of state are meeting. All three are talking of moving to a federal status without reservations. There's no problem between Moi and Museveni, Kenya and Uganda as far as we are concerned.

The old community drew up remedial measures to compensate Uganda and Tanzania for trade imbalances. Is that going to be repeated?

A free market is going to generate competition and already we are seeing a lot of cross-border investment. This is the future, rather than remedial measures. If you have free movement of capital and goods and labour, these imbalances will be sorted out in the long term. Tanzania has strong advantages in some key sectors – power, minerals – and soon it will start pumping gas from Songo Songo. Uganda has advantages in the agricultural sector and energy potential. Once the linkages are established we are likely to see a total transformation in the balance of trade. We're commissioning a study on external tariffs which will tackle the idea of balanced benefits. But it's still too early to say.

What objectives top the secretariat's agenda at the moment?

Our priority is policy harmonisation. Within that, dismantling of borders so we can allow free flow of people is a key issue. Already we've agreed a common travel document and Kenya and Uganda's railways have established a joint secretariat. Then there are fiscal and monetary policies, traffic laws, management of Lake Victoria, security measures. After harmonisation, we need to concentrate on developing the economic infrastructure. Telecommunications need to be modernised – the whole region has a power deficit. Finally, we need to promote trade and investment. We're drawing up a strategy paper which will set time frames in all these sectors. We hope it will be approved by March next year.

What about expanding East African co-operation to other countries?

We have many other regional organisations in this part of the world – Comesa, SADC etc. The point is not to have a repeat of the existing institutions. The East African region is unique – we're talking about three countries which for a long time were managed as one federal state, which more or less speak the same language, whose citizens went to the same schools. These countries feel they have to be united. Those kind of arrangements cannot include very many countries without losing their focus. We have had feelers from neighbouring countries but we want to be very cautious.

Looking back, do you regard the original community split-up as a disaster?

The ministers who signed the dissolution agreement wept. It was the worst thing that ever happened to this region and from that day the economies started to decline. Since 1977 there's been a realisation that renewed co-operation is inevitable. The whole world is forming regional trading blocs. Either we do the same or we sink.

Michela Wrong

■ **Tourism:** by Michela Wrong and Antony Goldman

Co-operation not competition

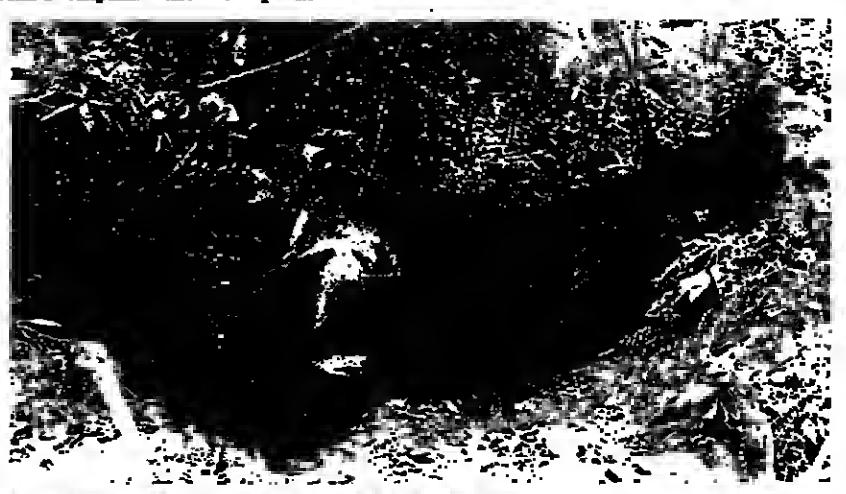
To exploit its potential to the full, East Africa needs to be offered as a single destination

Fringed by mountains, a focal point for tartan-draped Masaai herders, Namanga is a pleasant but unremarkable town few tourists would choose to stop in.

Unfortunately, the thousands of visitors wanting to see the best wildlife East Africa has to offer have little choice in the matter. Since Namanga straddles the border separating Kenya's game parks from those of Tanzania, they are obliged to descend from their buses, go through two sets of customs and immigration, apply for a $50 Tanzanian visa and board new buses on the other side of the frontier.

So much for regional co-operation. As an industry, tourism exemplifies the hurdles the East African community's collapse placed in the way of development, flying in the face of economic common sense.

National sensibilities play a part in the irksome set-up. Under-commercialised Tanzania, which has a range of attractions that rival the best that Kenya has to offer, resents the fact that 60 per cent of its visitors come via its more worldly-wise neighbour.


A Ugandan gorilla: wake me up when the tourists come

Foreign travel agencies pay a lump sum to a Kenyan tour operator, who will ensure most of the safari is spent in Kenya, using local facilities, leaving a Tanzanian counterpart thin pickings on a few days of bus rental and lodging.

"We have a much wider variety of parks, more products to offer and more wildlife than either of the two other East African countries," says Peter Mwenguo, marketing head of Tanzania's Tourist board. "But Tanzania is not getting its fair share of the market."

So, while Nairobi tour operators, who often manage to convince foreigners Mount Kilimanjaro and the Serengeti game park are actually in Kenya, may be keen to speed up border formalities, their resentful neighbours have far less to gain from streamlining.

The problem at Namanga exposes the chasm between intention and practice.

In theory, officials in the three countries accept that if East Africa is to exploit its tourism potential to the full, and fend off the threat presented by post-apartheid South Africa's entry into the market, selling the region as a single destination makes sense.

"The best way of dealing with the South African challenge is to synchronise our policies," says Mr Mwenguo. "We can beat them by offering tours that include the Stone Town of Zanzibar, climbing Mount Kilimanjaro, the mountain gorillas of Uganda and Kenya's parks."

His Ugandan counterpart, Ignatius Nakashiro, concurs. "I hope from now on we will learn to look at each other as allies, and not competitors." But in practice the nations' ambitious tourism master plans seem to have been drafted more in a spirit of competition than co-operation.

Kenya, where tourism is the largest single foreign exchange earner, clearly has most at stake. Last year's 20 per cent drop in arrivals, hitting the lowest level since 1988, sent shivers through the sector.

The fall was blamed on a spate of reports of muggings and harassment, but the sour experience of staying in coastal hotels experiencing daily power cuts also played its part.

Although numbers this year seem to have recovered and are expected to be in the 900,000 range, many believe capacity has outstripped demand and Kenya should abandon its target of 1m tourists by 2000.

In these circumstances, Kenya has the choice of following the path of narrow self-interest, jealously protecting its industry, or freshening up stale products with more, and longer, jaunts into Tanzania or Uganda.

Zanzibar, Mount Kilimanjaro and a range of rarely-visited game parks, plus the fact that game hunting is legal, make Tanzania a unique destination. After the neglect of the socialist years, the country is only just beginning to tap its resources.

The number of visitors to Tanzania has already risen from 54,000 in 1983 to 294,000 last year. The aim, government officials say, is to learn from Kenya's mistakes, avoid the budget market and stick to an eventual 500,000 high-paying visitors.

The Tourist Corporation, the inefficient parastatal which managed hotels and tour agents, has been replaced by the Tourism Board, solely devoted to marketing. A $150m, 10-year master plan foresees exploiting the historical Slave Route and the journeys of explorers such as Livingstone and Stanley.

At the moment the infrastructure is simply not up to the task. Until ambitious plans to improve Tanzania's roads, airports and telecommunications start bearing fruit, the only location likely to show dramatic growth is Zanzibar, already enjoying a hotel boom.

Worst-placed of the three countries is Uganda, where tourism is the fastest-growing section of the economy, rising 18 per cent a year to 175,000 visitors in 1995.

But the figures are deceptive – officials admit that 80 per cent of those visitors came on business or to see family. Only a handful were the high-paying tourists Uganda wants.

In addition, the rebel campaign in the north is in danger of scaring visitors away from a still dilapidated sector. And marketed on its own, Uganda's unique selling point – its population of endangered mountain gorillas – is far from viable.

By co-operating, the three nations could boost their share of world trade. Competing, they may all lose. "What we need to do is make it a competition between companies and not countries," says Brian Davies, Kenya Airways' chief executive and a member of Kenya's Tourist Board. "Leave the leading role to the private sector, rather than governments, and it will be easier to avoid awkward political sensitivities."

Nairobi

As the capital of East Africa's industrial and financial giant, Nairobi makes Kampala look petite and Dar es Salaam parochial. But first impressions - of a busy, well-connected airport, high-rise city centre and a well-educated business community - can lead to exaggerated expectations. Under the glitzy facade lurks a crumbling third world city.

Kenya's infrastructure has not kept pace with urban expansion and the strain is showing. Main thoroughfares are pitted with enormous potholes, street lamps stopped working years ago and rubbish piles up uncollected.

Power cuts are frequent, the telephone service increasingly patchy. Many of the numbers in the directory bear no relation to reality.

Although the investment Promotion Centre is friendly, it can be slow and ineffectual. Potential investors are probably better off approaching international accountants such as Price Waterhouse, KPMG or Coopers and Lybrand for advice. The Export Promotion Council has a more impressive reputation.

Nairobi has something of a surplus of hotels, although prices remain relatively high notwithstanding. In the top range are the Hilton, Intercontinental, Serena, Norfolk and Grand Regency, all conveniently located. The quiet Fairview is a little further out. Cheaper are the very central Six Eighty and New Stanley, but both are drearier than their prices warrant.

Despite a spate of negative publicity in the western press last year, security experts rate Nairobi as no more dangerous than many European capitals and far safer than Johannesburg.

The rules are simple: keep your car doors locked and windows closed when driving, never give lifts, do not sport gold chains or expensive watches on the street, stick to registered taxis, avoid rough areas after dark and be alert.

Thanks to its cosmopolitan population, the capital offers a huge range of cuisines. Excellent Indian food is served at the Haandi and Minar. Firmly on the tourist circuit, the Carnivore offers giraffe, buffalo and ostrich while its sister restaurant, the Tamarind, does seafood. Alan Bobbe's has quality French food while the Trattoria offers Italian.

Dar es Salaam

At first glance, the port city of Dar es Salaam seems to have weathered the years of socialism with apparent ease. In the shiny new casinos, Tanzanians boast of losing money at the tables, while on the streets, prostitutes flash bare breasts at night strollers. Stalls are crammed with imported goods.

But the liberalisation is still fairly recent and the scars left by former President Julius Nyerere's ideology run deep, taking the form of bureaucratic inefficiency and a general sense of torpor.

Of the three regional capitals, this is the most frustrating to work in and institutions such as the Investment Promotion Centre, intended to ease the businessman's path, signally fail to fulfil their intended role.

Making appointments is the first hurdle – as the creaking telephone system is repaired, numbers are changing, but no directory exists.

The advantage is that Dar es Salaam is a small city, where many key offices are within walking distance of each other and taxis, which can be hired by the day for $40 or less, are often unnecessary. It is worth starting early – many offices open at 8am and close at 4pm with a lunch hour from 12.30-2pm.

Renting a mobile telephone from one of the two rival firms may help.

Lodging remains limited. The only top-notch hotel, the new Sheraton, charges upwards of $200 a night. The cheaper Agip and Kilimanjaro have all the charm of Soviet youth hostels, but both are centrally located.

The choice of restaurants is limited. The Alcove offers both Chinese and Indian cuisine, Smokies does fish, La Taverna offers Italian and the Oyster Bay Hotel restaurant has excellent seafood. The restaurant on the top floor of the Kilimanjaro Hotel enjoys views across the port.

Kampala

Many travellers find Kampala the most pleasant of the three East African capitals in which to operate. Smaller and more manageable than Nairobi, it is largely free of Dar Es Salaam's coastal sleepiness. Because it is the centre of Uganda's economic boom, there is a palpable buzz in the air.

However, the visitor will find drawbacks to life in a country that survived years of brutal despotism and civil war. Credit cards are useless outside Kampala, telephoning 80km east of the capital often impossible and bureaucracy sometimes seems a throwback to a pre-colonial era.

Several four-star hotels offer services similar to the Sheraton at lower prices. Alternatively, the Diplomate, outside the centre, has a more intimate atmosphere and pleasing views.

Telephone rates, once among the highest in the world, are reasonable, but hotels still charge astronomical rates. It may be more convenient to hire a mobile phone from Celtel on 230110.

Taxis, available at hotels or on street corners, can be hired for the day for around $50.

Frustratingly, most travel agencies and car hire firms refuse credit cards. Shillings and foreign currency can be bought with Amex or Visa at Barclays Bank and money can be changed at banks, forex bureaux or licensed hotels and travel agents.

Kampala has a choice for diners. The best are Indian - try the Maharajah near the Speke Hotel - or Chinese - Fang Fang and Shanghai. The Swiss House, a little out of town, offers fondu and the Sheraton's Lion Bar serves Ugandan food.

KENYA

International code 254, Nairobi 2, Mombasa 11

● **Diplomatic missions:** UK 335944, US 334141, Japan 332955-8. Germany 712527, France 339783/4, Tanzania 331104, Uganda 330801, South Africa 215618-8
● **Hotels:** Norfolk 335800, fax 336742; Hilton 334000, fax 339462; Inter-Continental 335550, fax 210675; Serena 725111, fax 725184; New Stanley 333233, fax 229388; Boulevard 227567, fax 334071; Nairobi Safari Club 224808, fax 223245.
● **Business advice:** East African Association 218317, Price Waterhouse 221244, Coopers and Lybrand 221482, Investment Promotion Centre 221401/2/3, Export Promotion Council 228 534.
● **Restaurants:** Carnivore 501775; sea food: Tamarind 338959; French: Alan Bobbe 336952; Italian: Trattoria 340855; Kenyan: Segret Hotel Equatorial 720933.
● **Airlines:** British Airways 334362, Kenya Airways 229291, KLM 332673, Alitalia 224365, American Airlines 242557, Lufthansa 226271, Swissair 250288/9, Air France 216954, Uganda Airlines 221354, Air Tanzania 336224, South African Airways 229663.
● **Banks:** Barclays Bank 713800, 332230, Kenya Commercial Bank 339441, National Bank of Kenya 226471, 339690, Stanbic 335888.
● **Car hire:** Alamo 331648, Avis 336794, Hertz 531322, Central Rental 222888.
Taxis usually know the city well, but can be expensive: Ks900 (£10) to/from airport; Ks3,500 (£40) half day hire.
● **Advice and information:** Finance Ministry 338111, Foreign & Co-Operation Ministry 334433, Central Bank of Kenya 330500, 226431, Parastatal Reform Committee 222127, Nairobi Stock Exchange 230692, Institute of Economic Affairs 569888, East Africa Association 218317, Export Promotion Council 228534, Kenya Port Authority (011) 312211, Kenya Tourist Board 823000 fax 823757.

TANZANIA

International code 255, Dar es Salaam 51.

● **Diplomatic missions:** US 66010/5, UK 112950/4, Germany 117409, Japan 115827, 117383, South Africa 600618, 40668.
● **Hotels:** Sheraton 113569/112416/113702, Agip 117075, Oyster Bay 68062/4, Kilimanjaro 113103/4, Karibu Hotel 68069/67761, Embassy Hotel 117087/2. Mobitel 44762, DHL 113170.
● **Airlines:** British Airways 113820/2, 115551, Kenya Airways 113338, Air Tanzania 110245/114688, Alliance 117044/7, Ethiopian Airlines 117409, Precision Air (local charters) 30800. Dar Es Salaam airport: 844211/843183.
● **Ferry:** Sea Express services to Zanzibar 37049.
● **Car hire:** Avis 30505/34562, Evergreen 0811 324538.
● **Banks:** Citibank 110395/113364, Standard Chartered 117345/52, Stanbic Bank 112195-8.
● **Government offices:** Ministry of Trade 27251/22775; Ministry of Minerals 31433; Bank of Tanzania 21291/9; Ministry of Finance 46657, 21271/9; Investment Promotion Centre 221401-4, fax 336663; Tourism Board 113145, 110812, 111244, fax 116420; Parastatal Reform Committee 115482, 33046/34296; Capital Markets and Securities Authority 113903.
● **Zanzibar:** International code 255 54.
● **Hotels:** Mazson's 33694/33062, Dhow Palace 33012, Baghani 33889/31816/30165, Tembo 33005, Shanghani 33688, Emerson's 32153, Bwawani Plaza 30200.
● **Advice and information:** Tourism commission 33485, Investment Promotion Agency 31169/74, 33026. Free Economic Zone Authority 33888/33697.

UGANDA

International code 256, Kampala 41, Entebbe 42.
(Kampala unless otherwise indicated)

● **Diplomatic missions:** UK 257054, US 259791, EU 233033, France 242120, Germany 256767, Kenya 267368, Tanzania 2567566.
● **Hotels:** Sheraton 244590, fax 256696; Equatoria 250780-9; Grand Imperial 250681-8, fax 250605; Nile 235900-9; Diplomate 267725; Entebbe - Lake Victoria (042) 20644/5.
● **Airlines:** British Airways 256695, Sabena 234201. Air France 242907, Alliance Airlines 244011, Uganda Airlines 232990, Kenya Airways 236948.
● **Banks:** Barclays 232594, Uganda Commercial Bank 234710, Standard Chartered 231473, Stanbic 230811.
● **Car Hire:** Phoenix 236096, Avis 257286, Vacational Tours 234606; taxis can be hired for $50 a day.
● **Advice and Information:** Finance Ministry 234700; Trade Ministry 231104; Bank of Uganda 258441; Uganda Investment Authority 251652; Uganda Manufacturers Authority 221034; Uganda Export Promotion Council 259779; Commonwealth Development Corporation 235784; Development Finance Company of Uganda 256125; East Africa Foundation 244725; Uganda Tourist Board 242196.

CURRENCIES AND MONEY

Dollar trades calmly ahead of election

MARKETS REPORT

By Graham Bowley

The dollar traded in narrow ranges on the foreign exchanges yesterday ahead of today's US presidential elections.

The pound continued its surge, buoyed by expectations of higher UK interest rates after strong money supply data pointed to a rebound in UK high street activity.

The French franc fell after further doubts emerged about France's attempts to reduce its budget deficit to meet the Maastricht criteria for European monetary union. The currency came under stronger downward pressure after suggestions that agreement on the proposed European stability pact to control budget deficits after Emu might be delayed.

The dollar closed in London against the D-Mark at DM1.5132, compared with DM1.516 at the previous close. It finished at Y113.790 against the yen, from Y113.6. The pound closed against the D-Mark at DM2.4920, from DM2.483, and against the dollar at $1.6468, from $1.638. The sterling trade-weighted exchange rate index closed at 91.2 from 90.9.

■ The dollar traded calmly yesterday as traders prepared for today's US presidential election.

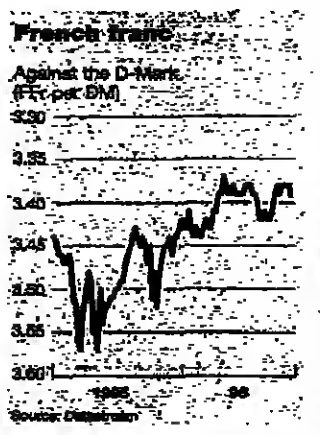
This calm state was in spite of data pointing to stronger than expected construction spending. But analysts said this was offset by a continued rally in US short-term interest rate futures, which suggests markets are revising down their expectations of the size of any possible tightening in US interest rates.

This was in contrast to further declines in German short-term interest rate futures, pointing to a rise in German interest rate expectations.

"The interest rate support for the US dollar is fading now fairly quickly. That is undermining the dollar," said Mr Klaus Baader, senior currency economist at Deutsche Morgan Grenfell in London. Mr Tony Norfield, of ABN Amro in London, pointed out that the yield spread on US Treasury bonds over German bunds had narrowed during recent sessions.

"The lower yield is making the dollar look less attractive," he said.

Mr Baader said the possibility that the US Congress would be dominated by the Democratic party following the election would not be a reason to sell the dollar. A Democrat-dominated Congress might have a greater



tendency to relax fiscal policy but the US Federal Reserve would then tighten monetary policy, which would boost the dollar, he said.

■ The French franc's decline yesterday reflected the current troubles the French government and European statisticians are experiencing in justifying the use of French pension fund money to plug France's budget deficit.

The currency was unsettled by reports that statisticians were meeting at the Bundesbank yesterday to discuss the issue. German statisticians have reacted angrily to France's move, raising doubts about whether other European countries with large budget deficits such as Italy would be able to meet the budget criteria for Emu. However, the Italian lira managed to hold its position on the currency markets yesterday.

Mr Baader said the episode reflected the fact that "German society remains vehemently opposed to attempts to bring countries into Emu unfairly".

■ Analysts said British Telecommunication's $20bn merger with MCI Communications could lead to a decline in the pound as BT bought dollars to fund the transaction. But others said BT would probably borrow dollars in the US, so avoiding any foreign exchange dealings.

■ The Swiss franc came under downward pressure again as Swiss interest rate futures continued to fall sharply. Mr Norfield said this reflected moves by investors to borrow large amounts of money in Swiss francs, where interest rates are low, to fund positions in other currencies.

Analysts expect the Reserve Bank of Australia to decide to cut interest rates by 50 basis points to 6.5 per cent at its meeting today.

● For the latest market update, ring FT Cityline on +44 990 209909

To subscribe, call +44 171 873 4379

■ Pound in New York

Nov 4	—Latest—	—Prev. close—
£ spot	1.6425	1.6360
1 mth	1.6415	1.6350
3 mth	1.6394	1.6328
1 yr	1.6467	1.6307

■ OTHER CURRENCIES

Nov 4	£	$
Czech Rp	44.2154 - 44.2865	26.8550 - 26.8750
Hungary	255.851 - 256.827	155.350 - 155.310
Iran	4941.80 - 4939.50	3000.00 - 3009.00
Kuwait	0.4927 - 0.4933	0.2992 - 0.2993
Poland	4.5761 - 4.6228	2.8065 - 2.8105
Russia	8907.02 - 9000.30	5464.00 - 5464.00
U.A.E.	6.0478 - 6.0505	3.6729 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Nov 4		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.5352	+0.0697	284 - 418	17.5419	17.3649	17.4917	3.0	17.4352	2.3	-	-	104.8
Belgium	(BFr)	51.3339	+0.1766	916 - 762	51.3762	50.9010	51.2069	2.9	50.9439	3.0	49.7499	3.1	106.0
Denmark	(DKr)	9.5736	+0.0344	702 - 770	9.5770	9.4895	9.5537	2.5	9.5181	2.5	9.3342	2.5	107.1
Finland	(FM)	7.4785	+0.0384	728 - 842	7.4962	7.4050	-	-	-	-	-	-	84.7
France	(FFr)	8.4294	+0.0402	288 - 320	8.4320	8.3528	8.4104	2.7	8.3715	2.7	8.193	2.8	108.7
Germany	(DM)	2.4920	+0.0087	911 - 929	2.4929	2.4725	2.4859	3.0	2.4731	3.0	2.4167	3.0	108.0
Greece	(Dr)	392.383	+2.534	731 - 035	393.328	388.667	-	-	-	-	-	-	67.4
Ireland	(I£)	0.9987	-0.0001	979 - 995	1.0004	0.9989	0.9984	0.4	0.9974	0.5	0.9909	0.8	100.9
Italy	(L)	2502.88	+10.84	184 - 391	2503.91	2482.01	2508.68	-1.8	2514.16	-1.8	2518.68	-0.6	78.8
Luxembourg	(LFr)	51.3339	+0.1766	916 - 762	51.3762	50.9010	51.2069	2.9	50.9439	3.0	49.7499	3.1	106.0
Netherlands	(Fl)	2.7936	+0.0059	926 - 945	2.7945	2.7734	2.7884	3.1	2.7714	3.2	2.7087	3.1	105.1
Norway	(NKr)	10.4696	+0.0145	580 - 791	10.5014	10.4139	10.4571	1.4	10.4371	1.2	10.3321	1.3	99.8
Portugal	(Es)	252.346	+1.309	256 - 433	252.433	250.012	252.541	-0.9	252.911	-0.9	-	-	95.8
Spain	(Pta)	209.839	+0.914	809 - 018	210.018	208.402	210.104	-0.9	210.334	-0.8	210.334	-0.2	80.0
Sweden	(SKr)	10.8718	+0.0589	836 - 799	10.8799	10.7197	10.8706	0.1	10.866	0.1	10.8666	0.1	88.7
Switzerland	(SFr)	2.0903	+0.0081	895 - 911	2.0911	2.0700	2.0827	4.4	2.0676	4.3	2.001	4.2	108.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	97.0
Ecu	-	1.2990	+0.0047	982 - 998	1.2998	1.2903	1.297	1.8	1.2925	2.0	1.2711	2.1	-
SDR†	-	1.134873	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6467	+0.0095	463 - 470	1.6470	1.6322	-	-	-	-	-	-	-
Brazil	(R$)	1.6924	+0.0098	919 - 928	1.6928	1.6788	-	-	-	-	-	-	-
Canada	(C$)	2.1990	+0.0134	990 - 007	2.2007	2.1789	2.1947	2.6	2.1930	2.9	2.1249	3.4	88.5
Mexico	(New Peso)	13.0508	+0.0078	444 - 574	13.0574	12.9805	-	-	-	-	-	-	-
USA	($)	1.6468	+0.0063	466 - 472	1.6472	1.6330	1.6456	0.8	1.6438	0.8	1.6318	0.9	97.0
Pacific/Middle East/Africa													
Australia	(A$)	2.0925	+0.0163	915 - 935	2.0935	2.0737	2.0938	-0.7	2.0945	-0.4	2.0941	-0.1	93.3
Hong Kong	(HK$)	12.7344	+0.0729	317 - 371	12.7371	12.6277	12.7271	0.7	12.7133	0.7	12.6438	0.7	-
India	(Rs)	58.7532	+0.3744	190 - 874	58.8874	58.3730	-	-	-	-	-	-	-
Israel	(Shk)	5.3467	+0.0166	391 - 542	5.3542	5.3157	-	-	-	-	-	-	-
Japan	(Y)	187.401	+1.382	301 - 501	187.501	184.740	186.511	5.7	184.651	5.9	176.621	5.8	127.8
Malaysia	(M$)	4.1599	+0.0187	573 - 605	4.1605	4.1027	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3237	+0.0125	221 - 252	2.3252	2.3057	2.3304	-3.6	2.3399	-2.8	2.3607	-1.6	112.1
Philippines	(Peso)	43.2806	+0.2375	068 - 543	43.3543	43.2068	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.1767	+0.035	754 - 780	6.1780	6.1249	-	-	-	-	-	-	-
Singapore	(S$)	2.3176	+0.0111	166 - 186	2.3186	2.3000	-	-	-	-	-	-	-
South Africa	(R)	7.7413	+0.0653	357 - 468	7.7468	7.6508	-	-	-	-	-	-	-
South Korea	(Won)	1360.01	+9.52	910 - 092	1360.92	1348.16	-	-	-	-	-	-	-
Taiwan	(T$)	45.2898	+0.249	486 - 309	45.3308	44.9059	-	-	-	-	-	-	-
Thailand	(Bt)	41.9787	+0.1982	669 - 904	41.9904	41.6380	-	-	-	-	-	-	-

† Rates for Nov 1. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 4		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.6474	-0.0182	452 - 495	10.6610	10.6580	10.6276	2.2	10.5974	2.3	10.3924	2.4	104.7
Belgium	(BFr)	31.1700	-0.07	500 - 900	31.2400	31.1400	31.11	3.3	30.9025	3.4	30.4425	2.3	105.7
Denmark	(DKr)	5.8131	-0.0122	121 - 141	5.8257	5.8075	5.8042	1.8	5.7858	1.9	5.7041	1.9	106.5
Finland	(FM)	4.5410	-0.0024	389 - 438	4.5557	4.5305	4.5322	2.4	4.5135	2.4	4.431	2.4	84.3
France	(FFr)	5.1184	-0.0046	177 - 190	5.1230	5.1088	5.1101	2.0	5.0921	2.1	5.0164	2.0	108.5
Germany	(DM)	1.5132	-0.0033	129 - 134	1.5173	1.5110	1.5103	2.3	1.5044	2.3	1.4796	2.2	107.5
Greece	(Dr)	238.585	-0.165	510 - 620	238.890	237.880	240.12	-7.9	242.89	-6.9	253.715	-6.4	67.3
Ireland	(I£)	1.6490	+0.0026	490 - 500	1.6500	1.6345	1.6485	0.3	1.6482	0.2	1.6453	0.2	-
Italy	(L)	1519.75	-2	940 - 010	1522.76	1518.25	1522.92	-2.5	1529.35	-2.5	1542.4	-1.5	76.7
Luxembourg	(LFr)	31.1700	-0.07	500 - 900	31.2400	31.1400	31.11	3.3	30.9825	3.4	30.4425	2.3	105.7
Netherlands	(Fl)	1.6963	-0.0081	960 - 965	1.7023	1.6944	1.6925	2.7	1.6845	2.6	1.6489	2.8	105.7
Norway	(NKr)	6.3571	-0.0275	561 - 581	6.4100	6.3522	6.3535	0.7	6.3477	0.6	6.3221	0.6	98.8
Portugal	(Es)	153.228	-0.075	200 - 260	153.250	152.870	153.43	-1.5	153.725	-1.3	154.5	-0.8	95.0
Spain	(Pta)	127.475	-0.17	450 - 500	127.750	127.360	127.665	-1.7	127.915	-1.4	128.58	-0.9	79.9
Sweden	(SKr)	6.6014	+0.0186	976 - 051	6.6051	6.5590	6.5996	0.5	6.5960	0.5	6.5414	0.8	89.7
Switzerland	(SFr)	1.2693	-0.0022	690 - 695	1.2721	1.2664	1.2656	3.6	1.2577	3.7	1.2246	3.5	107.6
UK	(£)	1.6469	+0.0063	466 - 472	1.6472	1.6330	1.6458	0.8	1.6438	0.8	1.6316	0.9	90.4
Ecu	-	1.2679	+0.0036	675 - 684	1.2688	1.2648	1.2692	-1.3	1.2724	-1.4	1.289	-1.7	-
SDR†	-	0.691683	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0004	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0276	-	275 - 277	1.0277	1.0275	-	-	-	-	-	-	-
Canada	(C$)	1.3358	+0.0045	355 - 360	1.3380	1.3337	1.3335	2.1	1.3284	2.2	1.3009	2.6	85.7
Mexico	(New Peso)	7.9245	-0.0045	220 - 270	7.9270	7.9200	8.0425	-17.9	8.309	-18.4	9.1695	-15.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.7
Pacific/Middle East/Africa													
Australia	(A$)	1.2706	+0.0026	702 - 710	1.2710	1.2702	1.2721	-1.4	1.274	-1.1	1.2785	-0.7	95.1
Hong Kong	(HK$)	7.7324	+0.0004	321 - 326	7.7326	7.7305	7.7323	0.0	7.7329	0.0	7.7459	-0.1	-
India	(Rs)	35.6750	+0.025	000 - 500	35.7500	35.6000	35.89	-7.2	36.35	-7.9	-	-	-
Israel	(Shk)	3.2465	-0.0034	425 - 505	3.2577	3.2425	-	-	-	-	-	-	-
Japan	(Y)	113.790	-0.2	750 - 830	113.830	113.040	113.315	5.0	112.31	5.2	108.11	5.0	128.7
Malaysia	(M$)	2.5263	-0.0027	248 - 258	2.5330	2.5090	2.5282	-1.4	2.5335	-1.3	2.5548	-1.2	-
New Zealand	(NZ$)	1.4108	-0.0004	102 - 115	1.4116	1.4102	1.4184	-4.7	1.4207	-2.8	1.4522	-2.9	-
Philippines	(Peso)	26.2800	-0.005	400 - 200	26.3200	26.2400	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7508	3.7504	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4073	-0.0012	069 - 078	1.4175	1.4069	1.4051	1.8	1.4005	1.8	1.3789	2.0	-
South Africa	(R)	4.7005	+0.013	980 - 030	4.7070	4.6830	4.7412	-10.4	4.8162	-9.8	5.131	-9.2	-
South Korea	(Won)	825.800	+1.1	400 - 200	827.200	825.400	-	-	-	-	-	-	-
Taiwan	(T$)	27.5000	-0.005	800 - 200	27.5200	27.4800	27.5001	0.0	27.5003	0.0	-	-	-
Thailand	(Bt)	25.4885	-0.0245	870 - 920	25.4960	25.4870	25.5795	-4.2	25.747	-4.0	26.3845	-3.5	-

† SDR rate per $ for Nov 1. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 1: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

November 4	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3	[illegible]	3¼	[illegible]	[illegible]	6.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	3¼	[illegible]	6.00	2.50	-
France	[illegible]	3¼	[illegible]	[illegible]	[illegible]	3.20	-	4.75
week ago	[illegible]	3¼	[illegible]	[illegible]	[illegible]	3.35	-	4.75
Germany	[illegible]	[illegible]	[illegible]	3¼	3¼	4.50	2.50	3.00
week ago	[illegible]	[illegible]	[illegible]	[illegible]	3¼	4.50	2.50	3.00
Ireland	5½	[illegible]	5¾	[illegible]	5⅞	-	-	6.25
week ago	[illegible]	[illegible]	5¾	5¾	[illegible]	-	-	6.25
Italy	[illegible]	7¾	7¾	[illegible]	[illegible]	6.00	7.50	8.38
week ago	[illegible]	7¾	[illegible]	[illegible]	[illegible]	9.00	7.50	8.38
Netherlands	[illegible]	[illegible]	[illegible]	3	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	2⅞	[illegible]	[illegible]	-	3.00	3.30
Switzerland	1¾	[illegible]	2⅛	[illegible]	2⅛	-	1.00	-
week ago	1¾	[illegible]	[illegible]	1¾	1⅞	-	1.00	-
US	5⅞	[illegible]	[illegible]	5½	5¾	-	5.00	-
week ago	5¼	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	½	[illegible]	[illegible]	[illegible]	½	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	5½	[illegible]	[illegible]	-	-	-
week ago	-	5⅝	[illegible]	5¾	[illegible]	-	-	-
US Dollar CDs	-	5.11	5.08	5.13	5.27	-	-	-
week ago	-	5.11	5.10	5.16	5.34	-	-	-
ECU Linked Ds	-	4⅛	4⅛	[illegible]	[illegible]	-	-	-
week ago	-	4⅛	[illegible]	[illegible]	4⅛	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	3½	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.

Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 4	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible] - 3	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible] - 3¼	[illegible]	[illegible] - 3½	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	3⅛ - 3	3⅛ - 3	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	3 - 2⅞	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	3⅜ - 3¼	3⅜ - 3¼	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	7⅛ - [illegible]	[illegible]	7 - [illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	7 - [illegible]	7 - 6⅞	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	9⅛ - 6	[illegible]	[illegible] - 6⅛	6¼ - [illegible]	[illegible]	[illegible]
Swiss Franc	1⅞ - 1⅝	1⅞ - 1⅝	[illegible]	[illegible]	2⅛ - 2	[illegible]
Can. Dollar	3¼ - [illegible]	3¼ - [illegible]	3⅛ - 3	[illegible]	3¼ - 3⅛	[illegible]
US Dollar	[illegible]	5¼ - 5	[illegible]	5½ - 5¼	[illegible]	[illegible] - 5½
Italian Lira	[illegible]	[illegible]	[illegible]	7⅝ - 7½	[illegible]	[illegible]
Yen	[illegible]	½ - [illegible]	[illegible]	[illegible]	½ - [illegible]	[illegible]
Asian $Sing	3⅜ - 3¼	3⅛ - 3¼	3⅛ - 3¼	3⅜ - 3¼	[illegible]	3½ - 3⅜

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.43	96.44	-0.03	96.46	96.42	13,732	52,661
Mar	96.35	96.35	-0.05	96.37	96.34	10,501	54,114
Jun	96.28	96.28	-0.05	96.30	96.26	3,316	30,881

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.77	96.79	+0.01	96.79	96.75	21130	214431
Mar	96.71	96.72	-0.01	96.73	96.69	30503	190646
Jun	96.51	96.52	-0.02	96.53	96.48	27115	166979
Sep	96.28	96.27	-0.03	96.29	96.21	31466	150851

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.68	92.66	-0.01	92.68	92.60	8350	69776
Mar	93.20	93.23	+0.03	93.26	93.15	10686	57316
Jun	93.44	93.48	+0.04	93.50	93.41	4987	32332
Sep	93.45	93.54	+0.06	93.55	93.44	1999	22345

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.98	97.82	-0.17	97.98	97.79	9408	30573
Mar	97.93	97.77	-0.19	97.93	97.74	8738	32659
Jun	97.72	97.57	-0.20	97.72	97.55	2740	15268
Sep	97.45	97.35	-0.18	97.45	97.36	367	5399

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.44	99.44	-	99.44	99.44	10	n/a
Mar	-	99.37	-	-	-	0	n/a
Jun	-	99.25	-	-	-	0	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.78	95.79	-	95.80	95.78	200	7499
Mar	95.74	95.75	-0.01	95.76	95.72	119	5275
Jun	95.68	95.68	-0.01	95.68	95.62	353	3502
Sep	95.54	95.56	-0.02	95.56	95.52	97	3061

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 4		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	16.65	16.42	4.855	1.946	4874	5.443	20.40	491.5	408.6	21.18	4.072	1.948	4.284	3.209	365.1	2.531
Denmark	(DKr)	53.61	10	8.804	2.603	1.043	2613	2.918	10.94	263.5	219.2	11.35	2.183	1.044	2.297	1.720	195.7	1.357
France	(FFr)	60.90	11.36	10	2.956	1.185	2968	3.315	12.42	299.3	249.0	12.90	2.480	1.186	2.609	1.954	222.3	1.541
Germany	(DM)	20.60	3.842	3.382	1	0.401	1004	1.121	4.201	101.2	84.23	4.362	0.839	0.401	0.882	0.661	75.20	0.521
Ireland	(I£)	51.38	9.584	8.437	2.494	1	2505	2.797	10.48	252.6	210.1	10.88	2.092	1.001	2.201	1.649	187.6	1.300
Italy	(L)	2.052	0.383	0.337	0.100	0.040	100.	0.112	0.418	10.08	8.389	0.434	0.084	0.040	0.088	0.066	7.490	0.052
Netherlands	(Fl)	18.37	3.427	3.017	0.892	0.358	895.5	1	3.747	90.30	75.13	3.890	0.748	0.358	0.787	0.589	67.07	0.465
Norway	(NKr)	49.03	9.144	8.051	2.380	0.954	2390	2.669	10	241.0	200.6	10.38	1.996	0.955	2.100	1.573	179.0	1.241
Portugal	(Es)	20.34	3.795	3.341	0.988	0.396	991.7	1.107	4.150	100.	83.19	4.308	0.828	0.396	0.872	0.653	74.28	0.515
Spain	(Pta)	24.45	4.561	4.016	1.197	0.476	1192	1.331	4.988	120.2	100.	5.179	0.996	0.476	1.048	0.785	89.28	0.619
Sweden	(SKr)	47.22	8.808	7.754	2.293	0.919	2302	2.570	9.632	232.1	193.1	10	1.923	0.920	2.023	1.515	172.4	1.195
Switzerland	(SFr)	24.56	4.581	4.033	1.192	0.478	1197	1.337	5.010	120.7	100.4	5.201	1	0.478	1.052	0.788	89.67	0.622
UK	(£)	51.33	9.574	8.429	2.492	0.999	2502	2.794	10.47	252.3	209.9	10.87	2.090	1	2.199	1.647	197.4	1.299
Canada	(C$)	23.34	4.354	3.833	1.133	0.454	1138	1.271	4.761	114.7	95.45	4.943	0.950	0.455	1	0.749	85.22	0.591
US	($)	31.17	5.813	5.116	1.513	0.607	1519	1.696	6.357	153.2	127.4	6.600	1.269	0.607	1.335	1	113.8	0.789
Japan	(Y)	27.39	5.109	4.498	1.330	0.533	1335	1.491	5.587	134.6	112.0	5.800	1.115	0.534	1.173	0.879	100.	0.693
Ecu		39.52	7.370	6.489	1.916	0.769	1926	2.161	8.060	194.2	161.6	8.368	1.609	0.770	1.693	1.268	144.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6630	0.6627	+0.0006	0.6633	0.6624	28,074	68,497
Mar	0.6664	0.6670	+0.0012	0.6670	0.6664	264	3,783
Jun	-	0.6660	-	-	-	106	2,477

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
ec	0.7924	0.7920	+0.0012	0.7926	0.7913	26,142	45,562
ar	0.7984	0.7990	+0.0014	0.7990	0.7961	558	3,065
	-	0.8042	-	0.8050	-	4	612

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8876	0.8897	+0.0023	0.8897	0.8885	21,116	73,992
Mar	0.9000	0.9006	+0.0019	0.9008	0.9002	135	3,136
Jun	-	0.9100	-	-	-	1	503

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6360	1.6380	+0.0042	1.6380	1.6354	14,560	59,480
Mar	1.6340	1.6336	+0.0028	1.6350	1.6336	221	782
Jun	-	1.6320	-	1.6330	-	154	157

EMS EUROPEAN CURRENCY UNIT RATES

Nov 4	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.792214	0.776278	-0.00493	-2.01	3.81	14
Portugal	195.792	194.895	+0.057	-0.46	2.19	3
Finland	5.80661	5.78254	+0.01291	-0.41	2.15	3
Spain	162.493	162.296	-0.046	-0.12	1.85	1
Netherlands	2.15214	2.16021	+0.00032	0.37	1.35	-3
Belgium	39.3960	39.6984	+0.0043	0.77	0.95	-6
Germany	1.91007	1.92692	+0.00031	0.88	0.84	-9
Austria	13.4383	13.5592	+0.0029	0.90	0.82	-7
Denmark	7.28580	7.40549	+0.00913	1.64	0.08	-11
France	6.40608	6.51696	+0.0142	1.73	0.00	-16
NON ERM MEMBERS						
Greece	292.867	303.784	+1.117	3.73	-1.93	-
Italy	2106.15	1935.41	+6.08	-8.11	10.70	-
UK	0.786652	0.777036	-0.005131	-1.22	2.99	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
1.610	2.63	3.09	-	0.25	0.79	1.22
1.620	1.93	2.51	2.83	0.48	1.11	1.60
1.630	1.29	1.90	2.33	0.85	1.68	2.04
1.640	0.80	1.42	1.85	1.37	2.21	2.52
1.650	0.46	1.03	1.45	2.22	2.82	3.11

Previous day's vol., Calls 13,670 Puts 13,891. Prev. day's open int., Calls 151,986 Puts 146,477

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.47	94.48	-	94.48	94.47	104,229	463,065
Mar	94.41	94.43	+0.01	94.44	94.41	189,625	374,255
Jun	94.30	94.32	+0.01	94.33	94.30	115,051	288,403

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.99	94.99	-	94.99	94.98	820	4,044
Mar	94.90	94.90	-	94.91	94.89	93	2,300
Jun	-	94.78	-	-	-	156	1,420

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
9675	0.05	0.07	0.07	0.11	0.02	0.04	0.10	0.14
9700	0	0	0.01	0.03	0.22	0.22	0.29	0.31
9725	0	0	0	0.01	0.47	0.47	0.53	0.54

Est. vol. total, Calls 22924 Puts 6297. Previous day's open int., Calls 446602 Puts 319812

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9800	0.08	0.17	0.19	0.26	0.40	0.62
9825	0.03	0.09	0.11	0.46	0.57	0.79

Est. vol. total, Calls 0 Puts 101. Previous day's open int., Calls 4238 Puts 2050

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9250	0.23	0.80	1.07	0.07	0.07	0.09
9275	0.09	0.59	0.86	0.18	0.11	0.13
9300	0.03	0.41	0.66	0.37	0.16	0.20

Est. vol. total, Calls 1205 Puts 1000. Previous day's open int., Calls 123217 Puts 66075

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	●Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	5.75
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Singer & Friedlander	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	●Smith & Williamson Secs	6.00
Banco Bilbao Vizcaya	6.00	Girobank	5.75	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	●Guinness Mahon	6.00	TSB	5.75
Bank of Ireland	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	●Hill Samuel	5.75	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	5.75	● Members of London Investment Banking Association	
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00	* In administration	
The Co-operative Bank	6.00	Lloyds Bank	5.75		
Coutts & Co	6.00	Midland Bank	5.75		
Credit Lyonnais	6.00	*Mount Credit Corp	6.25		

UK INTEREST RATES

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.67	93.67	-0.01	93.69	93.66	17917	99655
Mar	93.42	93.39	-0.06	93.43	93.39	23820	97331
Jun	93.12	93.09	-0.07	93.15	93.09	15018	99856
Sep	92.90	92.88	-0.08	92.93	92.87	7874	59956
Dec	92.71	92.69	-0.06	92.79	92.68	4524	45109

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9350	0.20	0.13	0.13	0.03	0.24	0.54
9375	0.04	0.05	0.07	0.12	0.41	0.73
9400	0	0.02	0.03	0.33	0.63	0.94

Est. vol. total, Calls 7109 Puts 6254. Previous day's open int., Calls 174939 Puts 148824

LONDON MONEY RATES

Nov 4	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6¼ - 2	6¼ - 6	[illegible]	[illegible]	6½ - [illegible]	6¾ - 6⅝
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible] - 6½
Treasury Bills	-	-	[illegible]	[illegible] - 5⅞	-	-
Bank Bills	-	-	[illegible] - 5⅞	9 - [illegible]	[illegible]	-
Local authority deps.	6⅝ - 6	6 - 5¾	[illegible] - 6	6⅛ - [illegible]	[illegible]	[illegible]
Discount Market deps	6¼ - 5	6⅛ - 6	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Nov 1, 5.8592pc. ECGD fixed rate Stlg. Export Finance. Make up day Oct 31, 1996. Agreed rate for period Nov 26, 1996 to Dec 24, 1996, Scheme III 7.25pc. Reference rate for period Oct 1, 1996 to Oct 31, 1996, Schemes IV & V 6.001pc. Finance House Base Rate 6pc from Nov 1, 1996

COMMODITIES AND AGRICULTURE

Venezuela in marginal oil fields tender

By Raymond Colitt in Caracas

Venezuela has announced a $6bn public tender for the development of 20 marginal oil fields with a potential total output of up to 450,000 barrels per day.

The move forms part of a plan to dramatically step up production by the year 2005 and is a further opening of the industry to private capital. Venezuela, already the western hemisphere's largest oil exporter, expects to produce in excess of 6bn b/d in a decade.

Of the 3,000 oil wells within the marginal fields, which make up 780,000 hectares, only 700 are currently operative, producing 164,000 b/d. Nearly half are in western Venezuela, especially around Lake Maracaibo.

The remaining fields are in the eastern provinces of Anzoategui and Monagas – some 350km south-east of Caracas. Petróleos de Venezuela (PDVSA), the state-owned oil company, expects new investment and technology to treble that output in the medium term.

"Many companies have shown interest in this bidding round before it was even announced," said Mr Erwin Arrieta, energy and mines minister. The areas have been selected to attract a wide range of companies, including "the very large".

In a break with previous bidding rounds, five of the areas are reserved for Venezuelan operators. Mr Claus Graf, vice-president of PDVSA, says this will "provide important opportunities for Venezuelan petroleum and service companies". He added that foreign investors could associate with Venezuelan companies to bid for these reserved areas.

The investors' return in the 20-year profit-sharing contract will be calculated on the basis of each additional barrel of oil the winning bidder produces over current output. The Ministry of Energy and Mines expects $6bn of investment capital during those 20 years.

PDVSA also presented a scheme which opens up the possibility for Venezuelans to acquire a share in specific projects in the industry. As much as 10 per cent of the required investment for each marginal area may be financed through oil investment funds, which issue instruments open to the public and traded on the Venezuelan stock exchange.

Signs of wealth return to the pampa

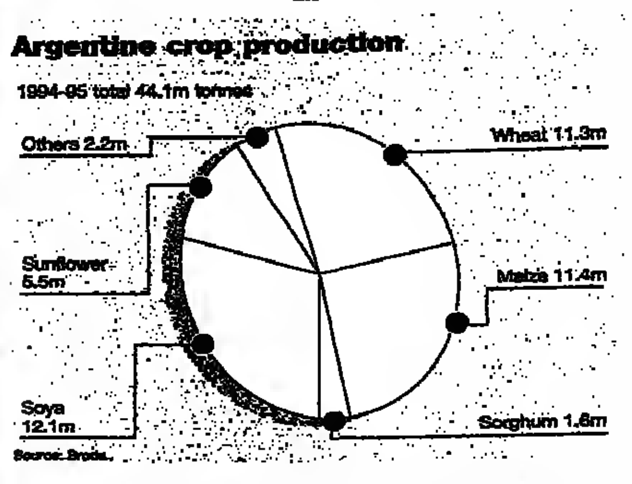
Argentine *estancieros*, owners of swathes of farming land on the fertile pampa, once had such a reputation for wealth that to be *riche comme un Argentin* was a common French expression of envy. At the outbreak of the first world war, Argentina – then the world's biggest exporter of corn and linseed, second in wheat and wool, and third in beef – had a per capita income equal to that of Germany.

As the century wore on, however, the interests of farmers were sacrificed to industrial expansion. Agriculture stagnated. Techniques fell behind those of Europe, the US and Australia. Inheritance laws subdivided land into small, uncompetitive parcels. By the 1990s, the sector accounted for only 6 per cent of gross domestic product.

But there are signs that farming may be stirring again. A more open economy, less punitive taxes and a better international environment for commodity exports are breathing life into the sector, which last year produced a record crop of 44.1m tonnes. Although many debt-burdened landowners continue to struggle, new investors with access to capital and modern farming methods are emerging.

Among them is Mr George Soros, the Hungarian-born financier, who is snapping up Argentina land. Through Cresud, an Argentine-listed company in which he bought a 47 per cent stake in 1994, he has spent about $60m on 330,000 hectares of arable and cattle-rearing land.

Cash cows: beef has perhaps the most potential



The strategy, explains Mr Alejandro Elsztain, a director at Cresud, is to break the vicious circle of old methods, low profits and exclusion from credit. By amalgamating small parcels of land and investing in technology, fertilisers and professional management, yields can be increased dramatically.

Mr Jesús Leguiza, sub-secretary of agriculture, says companies like Cresud are the result of profound sectoral changes. For decades, farmers were penalised by taxes on agricultural exports and by state commodity boards which fixed prices.

With incentives removed, the area sowed to wheat halved to 4.5m hectares between 1928 and 1992. State boards kept meat prices so low that farmers began to boycott cattle auctions: at one point in the 1940s beef was rationed.

Agriculture is no longer being squeezed, says Mr Leguiza. The new impetus to invest has been reinforced by an overvalued peso and sharply reduced import tariffs, making the purchase of foreign machinery and specialised fertilisers cheaper.

"We are seeing the disappearance of amateur farmers and the arrival of professionals, who are making big investments in tractors, machinery and fertilisers," says Mr Luis Secco, an economist at the Broda consultancy. Domestic reforms have coincided with a brighter international picture. Prices are high, demand is rising, and competition is becoming fairer.

Improved conditions are not only encouraging Argentina's traditional commodities of wheat, maize, soya, sorghum and sunflower seeds. Non-core crops such as cotton, rice and citrus fruits are also booming. The poor north-western province of Tucumán has become one of the world's biggest exporters of lemons, while a record cotton crop is expected.

Beef is perhaps the biggest hope of all. In spite of the country's reputation for fine-quality meat, Argentina exports more fish than beef. That could change following its eradication of foot-and-mouth disease which has kept its fresh meat out of lucrative markets for decades. The US has agreed in principle to import 20,000 tonnes, which could unlock important markets in Japan and south-east Asia.

Mr Leguiza admits change is "very slow", but insists the sector is "back on its former path". The glory days of the 1920s may be a distant memory but Argentine *estancieros*, so long the object of pity, could again become worthy of envy.

David Pilling

Australia cuts wheat pool price estimate

By Nikki Tait in Sydney

The Australian Wheat Board, which handles all export sales for the country's grain industry, yesterday dropped its estimate for the 1996–97 pool return by a further A$10 a tonne. This means the estimated return for the benchmark Australian Standard White grade is now A$175 a tonne.

The move is the latest in a series of pool estimate reductions by the AWB, which have been caused by the prospect of bumper production in most wheat-growing countries and falling international prices. Over the past month alone, the AWB figure has dropped by A$20 a tonne.

Mr Ron Storey, the AWB general manager for merchandising, said the latest estimates were based "on the state of the international market at present and our estimation of the way the market will trade over the life of this pool – and that could be as long as 18 months".

He pointed out that, because of the size of the Australian crop, a significant portion would have to be marketed after July next year, when the AWB would trading in direct competition with the Northern Hemisphere "new crop" harvest. The AWB recently raised its prediction of the size of the Australian harvest to around 21m tonnes.

Mr Storey added that if current estimates of pool returns were accurate, many growers would be operating at close to production cost. "They need above average yields to make a profit," be said.

The AWB said the estimated pool price for durum wheat had been increased by A$10 a tonne.

London cocoa futures fall to life-of-contract lows

MARKETS REPORT

By Alison Maitland, Susanna Voyle and Kenneth Gooding

Cocoa futures in London yesterday sank to new contract lows under the weight of physical cocoa coming on to the market. The March position dropped to £935 a tonne, a life-of-contract low, before rallying to £940 and then closing down £13 at £936.

One analyst said sterling's appreciation against the French franc, in which cocoa from key producing countries such as Ivory Coast is denominated, had encouraged origin selling. Industry buying had in turn led to hedging on Liffe, which had pushed the market down in the past five days.

Coffee futures on Liffe were mixed, with January closing off $5 at $1,389 a tonne, while sugar for March delivery was up 80 cents at $306 a tonne.

On the International Petroleum Exchange in London, crude oil prices were helped by a stronger US gasoline market and the news of a US strike against an Iraqi anti-aircraft site. In late trading Brent Blend for December delivery was at $22.50 a barrel, having closed on Friday at $22.37.

Gas oil futures were hit on the perception on increasing supply and weak European demand. December gas oil finished $1.75 lower at $205.25.

Many bullion dealers and producers are expecting the gold price to fall to about US$350 a troy ounce next year, according to Mr Ted Arnold, analyst at Merrill Lynch. "Very few market observers expect to see prices go above the $383–$385 level in coming months," he wrote in Merrill's Commodity Market Trends publication. Gold closed last night in London at $379.05 an ounce, up $1.40 from Friday's close.

London Metal Exchange traders expect copper stocks – already at a six-year low of 123,700 tonnes – to show a further drop of between 5,000 and 10,000 tonnes when the exchange reports stock levels today.

Three-month LME copper stood at $1,972 a tonne yesterday in late trading, $14 ahead of Friday but well below the high point for the day of $1,985.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1398.5-99.5	1427-27.5
Previous	1388.5-9.5	1416-17
High/low	1393.5/1393	1432/1418
AM Official	1393.5-94	1419.5-20
Kerb close		1424-24.5
Open int.	234,955	
Total daily turnover	58,381	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1248-63	1276-80
Previous	1245-50	1270-75
High/low	1242	1282/1270
AM Official	1242-43	1270-72
Kerb close		1282-85
Open int.	6,256	
Total daily turnover	1,335	

■ LEAD ($ per tonne)

Close	736-7	740-1
Previous	740-1	743-4
High/low	731	749/735.5
AM Official	731-2	737.5-8
Kerb close		740-1
Open int.	39,694	
Total daily turnover	9,472	

■ NICKEL ($ per tonne)

Close	7035-45	7145-50
Previous	7070-80	7160-85
High/low	6992	7180/7100
AM Official	6990-92	7101-05
Kerb close		7150-60
Open int.	46,311	
Total daily turnover	16,678	

■ TIN ($ per tonne)

Close	5835-45	5910-15
Previous	5905-15	5975-80
High/low	5840	5955/5890
AM Official	5820-25	5905-10
Kerb close		5900-05
Open int.	15,313	
Total daily turnover	4,564	

■ ZINC, special high grade ($ per tonne)

Close	1043-44	1066-67
Previous	1049.5-50.5	1071-72
High/low		1073/1064
AM Official	1041-41.5	1064-65
Kerb close		1065.5-66.5
Open int.	82,154	
Total daily turnover	25,075	

■ COPPER, grade A ($ per tonne)

Close	2012.5-14.5	1971-72
Previous	1967.5-9.5	1930-31
High/low	2002/2000	1985/1960
AM Official	2002-03	1954-57
Kerb close		1972-73
Open int.	170,039	
Total daily turnover	51,180	

■ LME AM Official £/$ rate: 1.6373
LME Closing £/$ rate: 1.6465

Spot 1.6443 3 mths: 1.6412 6 mths: 1.6385 9 mths: 1.6346

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open Int
Nov	94.20	+0.60	94.50	93.30	373	2,728
Dec	93.45	+0.60	93.70	91.55	5,440	22,987
Jan	92.45	+0.60	92.50	91.40	29	1,895
Feb	91.85	+0.80	92.00	90.80	17	943
Mar	90.00	+0.75	91.20	89.80	665	11,925
Apr	90.25	+0.95	-	-	5	549
Total					6,622	58,524

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	378.80-379.10		
Opening	378.30-378.60		
Morning fix	378.65	231.24	480.09
Afternoon fix	378.70	230.82	479.95
Day's High	378.90-379.20		
Day's Low	378.30-378.60		
Previous close	377.80-378.10		

Loco Ldn Mean Gold Lending Rates (Vs US$)
1 month ......2.80 6 months 3.17
2 months ......2.80 12 months 3.40
3 months 2.84

Silver Fix	p/troy oz.	US cts equiv.
Spot	294.05	481.40
3 months	298.05	486.95
6 months	302.20	492.65
1 year	311.20	504.60
Gold Coins	**$ price**	**£ equiv.**
Krugerrand	381-384	231-233
Maple Leaf	383.70-386.15	-
New Sovereign	89-92	54-56

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open Int
Nov	378.7	+0.4	-	-	-	-
Dec	379.6	+0.4	379.9	378.8	29,839	89,229
Feb	381.4	+0.4	381.8	381.1	8,097	20,804
Apr	383.8	+0.5	384.0	383.3	676	12,154
Jun	385.9	+0.5	386.3	385.5	80	11,135
Aug	388.2	+0.5	-	-	305	4,374
Total					40,022	192,687

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	385.1	+0.4	385.9	384.7	1,456	18,779
Apr	387.8	+0.4	388.5	387.5	120	8,129
Jul	390.6	+0.4	-	-	4	976
Oct	393.9	+0.4	-	-	4	136
Total					1,580	28,020

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	117.50	+1.00	117.60	118.75	308	7,374
Mar	119.60	+1.05	118.75	118.00	155	572
Jun	119.60	+1.05	-	-	25	138
Total					488	8,084

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Nov	479.2	+1.2	-	-	104	100
Dec	480.8	+1.0	482.0	479.0	10,765	63,235
Jan	482.8	+1.0	-	-	-	26
Mar	487.5	+1.0	489.0	487.0	891	14,788
May	491.8	+1.0	492.5	490.5	35	9,623
Jul	496.2	+1.0	498.0	496.0	271	5,259
Total					12,165	97,204

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open Int
Dec	23.07	+0.04	23.34	22.88	39,654	89,151
Jan	22.79	+0.05	23.01	22.60	20,575	54,173
Feb	22.40	-	22.64	22.33	7,442	35,392
Mar	22.18	+0.12	22.28	21.98	9,445	23,786
Apr	21.73	+0.01	21.88	21.68	4,511	16,436
May	21.44	+0.06	21.50	21.34	934	11,843
Total					84,737	392,231

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open Int
Dec	22.45	-0.05	22.70	22.41	12,835	64,353
Jan	22.14	-0.01	22.35	22.10	10,306	50,130
Feb	21.84	+0.02	21.89	21.64	3,726	25,424
Mar	21.20	+0.09	21.35	21.20	1,053	27,347
Apr	20.75	+0.13	20.89	20.70	525	9,390
May	20.24	+0.10	20.34	20.24	212	4,554
Total					na	na

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open Int
Dec	66.55	-0.05	67.40	66.00	13,185	41,664
Jan	66.25	-0.20	67.25	66.10	5,210	30,995
Feb	65.00	-0.25	65.80	64.85	3,299	15,728
Mar	63.15	-0.05	63.70	62.85	1,945	8,800
Apr	60.00	-0.05	60.65	59.00	850	5,152
May	57.65	-	57.70	57.65	236	3,224
Total					26,281	124,944

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
Nov	209.00	-3.00	212.00	208.75	6,238	28,628
Dec	205.25	-1.75	207.50	204.75	5,539	26,842
Jan	203.00	-2.00	205.00	202.50	2,807	21,594
Feb	198.50	-2.00	200.50	198.25	1,022	6,685
Mar	192.50	-1.50	194.25	192.25	338	5,051
Apr	186.25	-1.50	187.50	186.00	145	4,586
Total					15,988	106,073

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open Int
Dec	2.620	-0.042	2.690	2.610	14,611	40,515
Jan	2.595	+0.049	2.655	2.580	4,809	23,367
Feb	2.350	-0.037	2.390	2.340	3,488	13,834
Mar	2.180	+0.037	2.220	2.180	1,959	9,843
Apr	2.050	+0.035	2.080	2.050	819	5,778
May	1.999	-0.031	2.025	1.999	295	4,850
Total					28,093	142,463

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open Int
Dec	65.25	+0.55	66.00	64.30	13,862	28,437
Jan	63.10	+0.09	63.80	62.45	5,010	13,098
Feb	62.30	-0.18	63.00	62.25	2,023	4,979
Mar	62.85	-	-	-	438	2,311
Apr	64.40	+0.11	64.60	64.40	15	2,577
May	63.75	-0.31	64.00	64.00	119	1,148
Total					21,806	54,418

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
Nov	93.75	-1.00	94.75	93.75	19	118
Jan	95.25	-1.00	96.50	95.05	51	2,157
Mar	96.70	-1.00	97.50	95.70	68	1,828
May	97.90	-0.80	98.70	97.70	86	1,667
Jul	99.50	-1.00	100.00	99.50	31	268
Nov	95.50	-0.75	96.25	95.75	60	133
Total					315	6,171

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	379.75	+5.00	382.00	373.50	7,560	30,931
Mar	372.50	+3.50	375.00	366.50	3,206	16,334
May	358.00	-	361.50	356.50	575	2,735
Jul	347.75	-0.50	351.00	347.00	1,347	10,982
Sep	350.50	+0.50	354.00	350.50	-	290
Dec	358.00	-	363.00	358.00	2	177
Total					12,693	61,504

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	261.75	-1.25	265.75	261.25	38,267	136,656
Mar	267.75	-1.75	271.25	267.25	14,677	93,004
May	274.25	-1.75	277.25	274.00	5,131	42,083
Jul	279.00	-1.50	281.50	278.50	6,569	33,998
Sep	274.00	-2.50	276.00	274.00	306	3,726
Dec	273.50	-2.25	275.00	273.25	3,754	28,698
Total					68,767	339,786

■ BARLEY LIFFE (£ per tonne)

Nov	91.00	-	-	-	-	308
Jan	92.75	-	-	-	-	739
Mar	94.25	-	-	-	-	196
May	95.45	-	-	-	-	110
Sep	91.00	+0.05	-	-	-	1
Total					-	1,377

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	666.00	+2.75	671.00	660.00	16,713	12,463
Jan	670.75	+4.25	675.75	664.00	44,253	69,640
Mar	676.25	+4.50	681.00	669.50	0,533	33,169
May	680.50	+4.25	684.50	674.00	3,134	16,967
Jul	682.75	+4.50	687.50	677.00	3,485	15,110
Aug	681.00	+5.00	684.50	676.00	60	1,941
Total					78,564	158,757

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	22.74	+0.01	22.87	22.53	10,023	45,335
Jan	23.00	+0.03	23.12	22.79	3,276	20,393
Mar	23.39	+0.05	23.47	23.18	1,617	18,082
May	23.69	+0.04	23.77	23.50	1,091	10,027
Jul	24.00	+0.03	34.07	23.75	247	4,459
Aug	24.03	+0.03	24.15	24.03	9	1,381
Total					16,324	101,958

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	218.5	+2.3	221.0	215.9	11,919	35,987
Jan	213.8	+2.3	216.0	211.6	5,968	12,848
Mar	210.7	+1.6	212.5	208.7	3,298	18,795
May	208.7	+1.4	211.0	207.3	1,571	9,823
Jul	209.0	+1.0	210.5	207.4	788	6,356
Aug	208.5	+0.7	210.0	207.0	26	1,281
Total					23,615	86,473

■ POTATOES LIFFE (£/tonne)

Nov	40.0	-	-	-	-	2
Mar	68.5	-0.5	-	-	-	-
Apr	70.5	+0.5	71.0	69.0	26	1,306
May	79.5	-0.5	-	-	-	17
Jun	89.5	-0.5	-	-	-	-
Total					26	1,325

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Nov	1435	+25	1440	1415	35	557
Dec	1375	+15	1390	1375	22	501
Jan	1342	+12	1360	1342	50	1,890
Apr	1355	+7	1355	1350	10	993
Jul	1150	+10	1150	1150	16	198
Oct	1250	+10	-	-	-	34
Total					134	3,993

	Close	Prev
BFI	1333	1323

FUTURES DATA
All futures data supplied by CMS.

Tea

There was stronger and more general demand this week reports the Tea Brokers Association. The few good landed liquoring Assams on offer sold well at dearer rates while plainer types met more competition with prices about steady. East Africans were fully firm to dearer particularly coloury mediums which often appreciated 4 to 8 pence/kg. Offshores met improved demand with prices moving higher, especially for brighter teas. Quotations: Landed Best available 141p/kg. Good 128p/kg. Good medium 118p/kg. Medium 112p/kg. Low medium 95p/kg nom. The highest price realised this week was 141p/kg for a Sri Lanka.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
Dec	904	-12	911	903	2,167	26,310
Mar	936	-13	945	935	2,340	43,854
May	955	-11	964	953	636	14,302
Jul	974	-9	979	974	170	12,018
Sep	990	-8	999	990	359	5,510
Dec	1003	-7	1009	1002	90	4,687
Total					5,784	130,432

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1325	-20	1339	1321	4,640	18,949
Mar	1365	-19	1378	1362	2,621	26,257
May	1384	-19	1399	1384	543	9,315
Jul	1399	-16	1411	1397	117	6,619
Sep	1417	-15	1425	1415	137	5,901
Dec	1436	-15	1448	1448	2	829
Total					8,060	75,743

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Nov 1		
Daily	1010.13	1012.02

■ COFFEE LIFFE ($/tonne)

Nov	1509	+15	1521	1490	207	4,090
Jan	1389	-5	1395	1370	1,264	19,156
Mar	1339	+5	1345	1319	658	8,340
May	1322	+4	1330	1308	572	3,470
Jul	1322	+3	1300	1300	14	528
Sep	1322	+3	-	-	-	133
Total					2,701	32,749

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	117.75	+0.50	119.25	117.00	1,894	10,912
Mar	107.05	+0.60	108.00	106.30	1,689	10,570
May	104.10	+0.20	105.00	103.75	191	3,811
Jul	103.05	+0.05	104.00	103.00	45	1,090
Sep	102.50	+0.30	102.50	102.50	25	633
Dec	102.00	+0.50	102.00	102.00	4	409
Total					3,948	27,510

■ COFFEE (ICO) (US cents/pound)

Nov 1		Prev. day
Comp. daily	97.98	97.95
15 day average	99.05	99.20

■ WHITE SUGAR LIFFE ($/tonne)

Dec	307.7	-0.5	309.9	307.8	1,065	7,261
Mar	305.5	+0.3	306.8	305.0	1,240	13,068
May	306.2	-0.3	307.5	306.0	200	4,593
Aug	306.2	+0.1	309.0	308.0	55	1,857
Oct	302.4	+0.6	303.0	302.4	32	1,061
Dec	305.8	+1.3	-	-	-	287
Total					2,607	28,732

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	10.35	-0.01	10.45	10.30	6,272	87,451
May	10.42	-0.04	10.51	10.40	1,739	29,942
Jul	10.37	-0.04	10.44	10.36	941	18,993
Oct	10.36	-0.05	10.43	10.35	157	10,884
Mar	10.39	-0.03	10.41	10.39	282	3,633
May	10.38	-0.04	10.38	10.38	208	759
Total					9,591	152,267

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	72.52	+0.05	72.60	71.00	5,357	24,749
Mar	74.45	+0.12	74.50	73.83	1,553	14,219
May	75.55	+0.12	75.55	74.70	1,033	8,647
Jul	76.25	+0.20	76.25	75.55	395	0,686
Oct	76.20	+0.05	76.20	76.15	20	1,265
Dec	76.05	-0.05	76.05	75.85	94	4,556
Total					8,432	60,574

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Nov	107.10	+0.30	107.00	106.05	94	4,666
Jan	97.35	-1.95	99.55	97.10	972	8,649
Mar	100.30	-1.85	102.20	100.10	407	4,722
May	102.70	-1.75	104.20	102.25	174	1,242
Jul	104.70	-1.75	105.25	105.00	45	514
Sep	106.70	-1.80	-	-	2	252
Total					1,694	20,240

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Nov 4	Nov 1	month ago	year ago
1852.8	1854.2	1880.3	2132.8

■ CRB Futures (Base: 1967 = 100)

Nov 1	Oct 31	month ago	year ago
237.30	237.83		

■ GSCI Spot (Base: 1970 = 100)

Nov 1	Oct 31	month ago	year ago
203.75	204.92	205.22	183.96

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Dec	67.225	+0.1	67.450	67.125	6,690	37,189
Feb	63.950	+0.15	64.125	63.800	2,108	19,292
Apr	65.875	+0.125	65.950	65.625	1,836	12,912
Jun	63.700	+0.175	63.800	63.550	1,421	5,460
Aug	63.000	+0.15	63.100	62.900	374	8,319
Oct	65.650	+0.225	65.950	65.500	958	3,767
Total					13,960	85,224

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Dec	55.950	+0.05	56.450	55.450	5,647	14,426
Feb	75.950	-0.025	76.350	75.375	3,719	8,547
Apr	71.150	-0.075	71.550	70.775	760	3,105
Jun	75.375	-0.375	75.750	75.100	637	3,288
Jul	73.200	-0.25	73.300	72.650	152	843
Aug	69.400	-0.525	69.750	69.250	170	949
Total					11,199	31,718

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	69.475	-1.125	70.800	69.250	1,961	4,864
Mar	69.350	-0.975	70.500	69.200	230	522
May	71.100	-0.325	71.700	70.500	109	374
Jul	71.050	+0.95	71.700	70.500	50	208
Aug	69.950	+0.45	70.500	69.700	1	47
Total					2,351	6,015

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1400	45	89	29	47
1425	33	75	42	58
1450	23	63	57	71
■ COPPER (Grade A) LME	**Dec**	**Mar**	**Dec**	**Mar**
1950	95	117	44	115
2000	68	95	68	142
2050	47	77	94	173
■ COFFEE LIFFE	**Jan**	**Mar**	**Jan**	**Mar**
1400	49	45	60	106
1450	30	33	91	144
1500	19	23	130	184
■ COCOA LIFFE	**Dec**	**Mar**	**Dec**	**Mar**
900	15	55	11	18
925	5	40	26	29
950	1	29	47	43
■ BRENT CRUDE IPE	**Dec**	**Jan**	**Dec**	**Jan**
2200	75	-	21	-
2250	-	-	40	-
2300	33	57	78	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$20.50-0.56x	+0.05
Brent Blend (dated)	$22.06-2.10	-0.135
Brent Blend (Dec)	$22.48-2.50	-0.18
W.T.I.	$22.95-2.99x	-0.21
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$237-239	
Gas Oil	$210-213	-2.5
Heavy Fuel Oil	$111-113	-3
Naphtha	$220-223	-3.5
Jet fuel	$238-241	-1
Diesel	$224-226	-5.5
■ NATURAL GAS (Pence/therm)		
Bacton (Dec)	15.40-5.55	-0.075

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER		
Gold (per troy oz)‡	$378.95	+1.00
Silver (per troy oz)‡	482.00c	+2.50
Platinum (per troy oz.)	$381.00	+1.25
Palladium (per troy oz.)	$116.25	+0.50
Copper	99.0c	+1.0
Lead (US prod.)	46.00c	
Tin (Kuala Lumpur)	14.48r	-0.32
Tin (New York)	277.50	
Cattle (live weight)	99.83p	+0.43*
Sheep (live weight)	124.73p	+3.19*
Pigs (live weight)†	88.28p	-8.02*
Lon. day sugar (raw)	$257.40	-1.10
Lon. day sugar (wte)	$315.60	+0.10
Barley (Eng. feed)	£100.0	
Maize (US No3 Yellow)	127.0	
Wheat (US Dark North)	Unq	
Rubber (Dec)♥	82.00p	
Rubber (Jan)♥	82.00p	
Rubber (KL RSS No1)	319.5z	+3.5
Coconut Oil (Phil)§	$750.0v	-10.0
Palm Oil (Malay.)§	540.0z	
Copra (Phil)§	$435.0z	
Soyabeans (US)	188.0z	-3.0
Cotton Outlook'A' index	75.50	+0.10
Wooltops (64s Super)	399p	-3

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Dec v Oct/Nov z Nov ♥ London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 587 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,217 Set by VIXEN

ACROSS
1 The French back a fellow in a corner (6)
4 Bales out – in error, that's for certain (6)
10 Swindle vulnerable rival (9)
11 Payment expected for putting it in the wrapper (5)
12 Laws affecting cats (4)
13 Opposing musicians being brought in unofficially (10)
15 A military body occupying new Moslem place (7)
16 Article on through transport strictly for the birds! (6)
19 Corrupt after a month in charge (6)
21 He may well be stopping at work (7)
23 Find yet again a leftist is given protection (10)
25 Some oaf, arrogant and offensive when abroad (4)
27 In the West Country, but originating in the East (5)
28 German apt to appear as a charming figure (9)
29 Puts on record to infuriate – such stuff! (8)
30 Mend or replace with new? (6)

DOWN
1 Applauds as about a hundred demand rights (8)
2 A woman to study position (9)
3 Challenge to western concept (4)
5 Topping father! (7)
6 One appropriately treated is striking and calm (10)
7 In default, rascals are quite unrestrained (5)
8 Key men, note, soon start making changes for tba better (6)
9 Eotrance is round back or handy (6)
14 They'll complain but take professional examinations without hesitation (10)
17 Support control with vigour (9)
18 English matrons disconcerted him (8)
20 The person cutting short a failure (7)
21 Passing about a quarter, but changing colour (6)
22 Not against healthy yield! (6)
24 Slump the medico loves on the quiet (5)
26 Interior decoration gives many trouble (4)

Solntion to Saturday's prize puzzle on Saturday November 16.
Solntion to yesterday'a prize puzzle on Monday November 18.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

GUERNSEY (REGULATED)(**)

Saudi International (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

Staines Fund Managers (Guernsey) Ltd

UBK Asset Management (Guernsey) Ltd

U.S. Advisors (Guernsey) Limited

Yamaichi Capital Mngt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

LGT Asset Management Ltd – Contd.

Lazard Brothers Investment Funds Ltd

Old Mutual International Fd Mngrs Ltd (e)

AON International Funds Plc

Berkshire KITC Growth Fund Plc

Berkshire Korea Fund Plc

Blackstone Franks Managers Ireland Ltd

Bordier Invest (Ireland) Ltd

Buchanan Asset Management (Ireland) Ltd

Prolific International Fund Plc

CFP Interest Rate Arbitrage Fund Plc

Calypso Fund

Capital Vision Fund Plc

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

	Init Charge	Selling Price	Buying Price	+or -	Yield Grs
ABN AMRO Funds (u)					
4 Rue Jean Monet, L-2180 Luxembourg 352 4349/9320					
Latin America Equity		$47.94	40.86	--	-
North America Equity		$79.39	75.78	—	-
Asian Tigers Equity		$92.76	91.37	—	-
Europe Equity		$72.08	73.02	—	-
Germany Equity		DM131.79	132.45	—	-
Japan Equity		$48.84	47.71	—	-
Europe Bond		$80.90	01.05	—	-
US Bond		$58.10	58.25	—	-
Global Bond		$61.85	61.20	—	-
Germany Bond 0		DM108.63	108.08	—	-
Spain Bond		Pta9917	9942	—	-
Eastern Europe Equity F		DM173.5	177.04	—	-
China Equity F		$56.16	56.86	—	-
Switzerland Equity		SFr121.8	122.01	—	-
Abtrust Fund Mngrs Luxembourg SA (u)					
4 Boulevard Royal L 2449 Luxembourg 00 352 227001					
Abtrust Atlas Fund					
Global Cap Portfolio		$3.720		+0.014	-
United States Portfolio		$5.300xd		-0.010	-
Cont'l Europe Portfolio 0		DM6.238		-0.004	-
Japan Portfolio		£0.590		+0.006	-
Pacific Portfolio		$8.614		+0.007	-
Gold Portfolio		$5.159		-0.032	-
UK Growth of Income		£2.075xd		-0.004	3.01
Dollar Portfolio		$1.694xd		+0.001	7.00
Sterling Portfolio		£1.061xd		-0.002	6.30

	Selling Price	+or -	Yield Grs
Fidelity Funds - Contd.			
Italy	L13835	+4	-
Japan Smlr Cos	Y1040	+2	-
Korea F 0	$8.333	+0.006	-
Latin America	$9.310	+0.070	0.00
Malaysia	$33.70	-0.07	-
Nordic	SKr183.1	+0.9	-
Singapore	$21.00	-0.22	-
Switzerland	SFr14.87	+0.07	-
Thailand	$26.74	-0.00	-
United Kingdom	$1.132	-0.005	-
Bond Funds			
European	Ecu11.13	-	5.83
International	$1.058	+0.002	0.29
US Dollar	$5.040	+0.004	5.72
Sterling	£0.250	-0.004	5.86
Yen	Y1068	+2	2.48
Balanced			
European Balanced	DM12.62	-0.01	1.92

Prices as at November 1

Fleming Group (u)
6 Route De Treves L-2633 Senningerberg Luxembourg
00 352 34101 or 0800 900 284
Internet: http://www.flemings.lu/

Fleming Flagship Fund (daily dealing)

	Selling Price	Buying Price	+or -	Yield Grs
FFF American	$51.66	54.85	+0.18	-
FFF Amer Fled'ing F	$81.00	80.47	+0.40	-
FFF Asian Smaller Cos F	$10.34	10.04	+0.08	-
FFF China	$12.21	12.82	+0.06	-
FFF Continental Europe F	DM35.41	37.46	+0.00	-
FFF DM Balanced F 5	DM10.80	11.43	+0.01	-

Mercury Asset Management S.A. - Contd.

	Selling Price
Asian Opps	$29.14
European Opps	$32.78
Global Opps	$10.86
Japan Opps	$17.36
North American Opps	$42.36
United Kingdom Opps	£18.34
DM Reserve	DM112.8
Dollar Reserve	$105.82
Sterling Reserve	£110.12
Swiss Franc Reserve	SFr107.8
Mercury Offshore Stg Tst-SICAV (u)	
Global	£1.728
Overseas	£1.883
European	£2.201
Japan	£0.861
North American	£2.449
Pacific	£2.172
United Kingdom	£1.882
Reserve	£0.885

Midland Int'l Circuit Fund SICAV (u)
Midland Bank Fund Managers (Jersey) Ltd
PO Box 26, St Helier Jersey

	Selling Price
UK Growth	£1.445
European Growth	£1.65
European Opps	$4.03
Japan Growth	£0.819
Japanese Opps	$2.152
Pacific Growth	£1.941
Nat American Growth	£1.749
American Opps	$3.685

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual International - Contd.

	Selling Price	Buying Price	+ or -	Yield Gross
$ Hong Kong Stockmkt	$7.222	7.785	—	-
$ Intl Fixed Interest	$3.818	4.038	—	-
$ Intl Mngd Currency	$2.441	2.625	—	-
$ Dollar Money Mkt	$2.267	2.438	—	-
$ Latin American Stkmkt	$0.934	1.004	—	-
$ Dollar Special Mkt	$1.046	1.107	—	-
$ Emerging Market Bond	$1.130	1.248	—	-
$ Emerging Stockmarkets	$0.820	0.886	—	-
G'teed Futures1 Sep 98		$1.736	—	-
G'teed Futures2 Mar 99		$1.518	—	-
G'teed Futures3 Sep 99		$1.747	—	-
G'teed Futures4 Dec 2000		$1.614	—	-
G'teed Futures5 Dec 2001		$0.785	—	-
Guaranteed 105 Futures Bond		$1.148	—	-
Swiss Franc Managed	SFr6.859	7.375	—	-
Swiss Franc Money Mkt	SFr1.290	1.383	—	-
Conversions	SFr1.024	1.102	—	-
DEM Deutschemark Mngd	DM2.645	2.845	—	-
$ Secure Stkmkt Index	$0.934	1.008	—	-
£ Secure Stkmkt Index	0.945	1.017	—	-
Broker Managed Funds				
£ UFS Global Port	£1.375	1.479	—	-
£ YRA Worldwide	£1.355	1.457	—	-
$ YRA Dlr Worldwide	$1.502	1.616	—	-
Young & Co Wrld P'folio	$1.285	1.382	—	-
Pioneer Mid Term App	$1.130	1.229	—	-
Pioneer Long Term Cons	$1.037	1.100	—	-
Pioneer Long Term App	$0.874	0.940	—	-
HFP Selective Mgd	$1.089	1.182	—	-
Acorn International Managed	$0.857	0.900	—	-
Meyado Inv Ltd Global Grth	DM0.908	0.977	—	-

PanEuroLife societe anonyme
35 Av Marie-Therese, Luxembourg 00 352 456730

	Selling Price	Buying Price	+ or -	Yield Gross
French Balanced Oct 30	FFr6877.98	-71.25	-	
German/Benelux Oct 30	DM3100.15	-25.78	-	
Global Equities Oct 30	$1354.25	-18.09	-	
UK Secure Gth Oct 30	£732.94	-3.16	-	
US Secure Growth Oct 30	$1172.04	+0.63	-	
Intl Real Estate Oct 30	Ecu1441.90	-27.72	-	
Fund of Funds Oct 30	Ecu1215.81	-10.43	-	

Alpha Fund Management Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Alpha Europe Sep 30	Ecu264.05		—	-
Alpha Futures Sep 30	$224.21		—	-
Alpha Global Sep 30	$206.10		—	-
Alpha Atlas Sep 29	$103.88		—	-
Alpha Atlas Fd Ltd NTG Cl	$148.20		—	-
Alpha Asia Tiger Class Aug 31	$113.75		—	-
Alpha Hedge Class A Aug 31	$335.58		—	-
Alpha Hedge Class B Aug 31	$134.24		—	-
Alpha Hedge Class B Aug 31	$138.70		—	-
Alpha Latin Am Aug 31	$287.48		—	-
Alpha Pacific Sep 30	$337.86		—	-
Alpha Short Aug 31	$34.68		—	-
Alpha Tiktale Sep 30	$220.56		—	-
A Worthington Sep 30	$159.65		—	-
[illegible]	$96.87		—	-
[illegible]	$110.26		—	-
[illegible]	$103.58		—	-
[illegible]	Ecu184.41		—	-
[illegible]	$118.47		—	-
[illegible]	$123.24		—	-
[illegible]	$78.28		—	-
Optima Emerging Mkts Aug 31	$178.58		—	-
[illegible]	$133.16		—	-
[illegible]	$111.88		—	-
[illegible]	$127.40		—	-
[illegible]	$82.40		—	-
[illegible]	$84.70		—	-
The Roble Fund Ltd Sep 30	$137.43		—	-
[illegible]	$119.48		—	-
[illegible]	$123.52		—	-
[illegible]	$117.88		—	-
[illegible] Performance Sep 30	$86.25		—	-

Arcvis Capital Advisors LLC

	Selling Price	Buying Price	+ or -	Yield Gross
Amaris Clipper Ltd	$112.49		—	-

Arc Investment Company Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Rainbow	$308.11		—	-
Rainbow	SFr512.49		—	-

[illegible]

Every day, we help thousands of people like Zoe fight cancer.

Give people with cancer a fighting chance

Over 90p in every £1 donated goes directly into our vital research

I would like to make a donation of £________

(Cheques payable to: Imperial Cancer Research Fund)

or charge £________ to my Access/Visa/Amex/Diners/Charity Card No.

Expiry Date __/__ Signature ________

Mr/Mrs/Miss/Ms

Address

Postcode ________

Imperial Cancer Research Fund

Please return your donation to: Imperial Cancer Research Fund FREEPOST (WC4066/3) London WC2A 3BR FTA2

OTHER OFFSHORE FUNDS

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT TRUSTS

[illegible]

ENGINEERING - Cont.

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

HOUSEHOLD GOODS

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.
[illegible]

OTHER INVESTMENT TRUSTS
[illegible]

INVESTMENT COMPANIES
[illegible]

LEISURE & HOTELS
[illegible]

LIFE ASSURANCE
[illegible]

MEDIA
[illegible]

OIL EXPLORATION & PRODUCTION
[illegible]

OIL, INTEGRATED
[illegible]

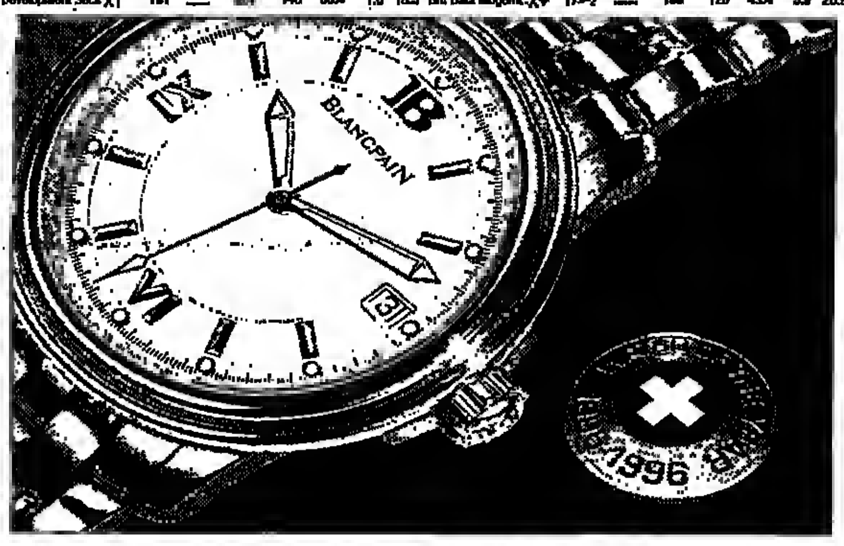
OTHER FINANCIAL
[illegible]

PAPER, PACKAGING & PRINTING
[illegible]

PAPER, PACKAGING & PRINTING - Cont.
[illegible]

PHARMACEUTICALS
[illegible]

PROPERTY
[illegible]



PROPERTY - Cont.
[illegible]

RETAILERS, FOOD
[illegible]

RETAILERS, FOOD - Cont.
[illegible]

RETAILERS, GENERAL
[illegible]

SUPPORT SERVICES
[illegible]

SUPPORT SERVICES - Cont.
[illegible]

TELECOMMUNICATIONS
[illegible]

TEXTILES & APPAREL
[illegible]

TOBACCO
[illegible]

TRANSPORT
[illegible]

WATER
[illegible]

AIM
[illegible]

AIM - Cont.
[illegible]

AMERICANS
[illegible]

CANADIANS
[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week High	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind	q	£21½xd	—	*£34¼	£21½	1,724	3.3	♦
Barlow	††	95½	-½	210½	95½	1,872	2.2	-
Gold Flds Prop R		129½	+1½	170	120	72.8	8.2	10.7
NK Props.		62	—	95	60	2.49	19.4	-
SASOL	♥	845	—	710	475	3,777	1.8	-
SA Brews		£16½	-⅛	£29¼	£15½	4,614	2.1	♦
Standard Bank		£22½	-⅛	£32¼	£22½	2,726	1.5	21.4
Tiger Oats	†	790	—	1270	770	1,188	1.9	17.7
Tongaat-Hulett		693xd	-4	1247	693	645.6	2.5	♦

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✝ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimate. c Assumed dividend yield after rights issue. [illegible] yield, p/e ratio based on latest annual earnings. e Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment.

F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after pending scrip and/or rights issue. [illegible] yield, p/e based on latest annual earnings. H Yield based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a [illegible]

FD (Foreign Income Dividend) § Forecast accruing yield, p/e based on prospectus or other official estimates. W Pro forma figures. [illegible]

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT2595. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

✝ FT Company Focus / Focus Plus

Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.

Company Focus (FT news) £8.45.

Focus Plus (FT and Investors Chronicle news) £10.95.

To order, call 0121 200 4678.

Reports published by ShareFinder Ltd.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An International service is available for caller's outside the UK, annual subscription £250 stg.

Call 0171 873 4378 for more information on FT Cityline.

For readers phoning from outside UK, please dial +44 in place of the first 0.

The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

British Telecom deal fails to boost market

MARKET REPORT

By Joel Kibazo

Not even news of the largest ever acquisition by a British company could breathe life into a UK market that remained gripped by interest rate worries and the strength of sterling following last week's surprise quarter of a percentage point rise in base rates.

British Telecommunications' £12bn deal with US long-distance carrier MCI, unveiled at the weekend, was initially the main talking point. The FTSE 100 index's firm opening at 3,955, some 7.6 points above Friday's close, led to early hopes that euphoria surrounding the deal would provide the spur to shake off last week's gloom.

The bulls of the BT deal piled into the stock which was said to account for a gain of just over 8 points on Footsie, helping to prevent an even larger slide in the leading index.

Telecoms was by far the best performing sector of the day. Analysts expect further consolidation in the sector following the BT deal and investors used the occasion to bet on issues such as Orange and Vodafone.

But, as the day wore on, worries about interest rates and the strength of sterling returned to the fore. These concerns were heightened by the publication of stronger than expected M0 money supply statistics and firm housing starts data. Analysts suggested the strength of M0 figures may be a sign of strong retail sales growth for October.

This all served to increase investor anxiety and prompted a turnaround in the fortunes of both equities and bonds. Long-dated gilts closed a quarter of a point lower.

Explaining the change in sentiment, Mr Robert Barrie, chief European equity economist at BZW, said: "We are caught between last week's rate rise and the coming budget. If we see a tight budget some of the heat may be taken out of interest rate expectations which may take some of the heat out of sterling."

The death at the weekend of a Conservative member of Parliament, reducing the government majority to one, also added to the market's jitters with political uncertainty once again becoming a factor.

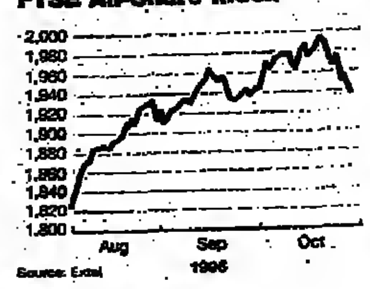
The index traded between three and five points lower into the afternoon, when concerted selling in Footsie futures prompted a late sell-off in the cash market. Concern among traders that a landslide Democratic victory in the US could unleash a series of spending pledges and thereby trigger a US market slide, weakened gilts and further dented sentiment in equities.

However, the early strength on Wall Street indicated that few were worried about such an outcome in the US, with the opinion polls indicating that President Clinton's lead was narrowing.

The FTSE 100 index eventually ended at 3,928.1, down 20.4 on its previous close, having touched a low of 3,924.7 in the last half-hour of trading.

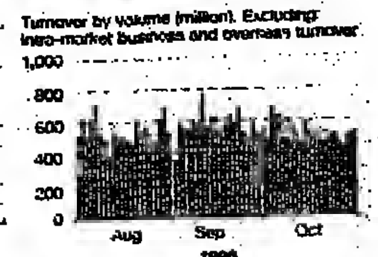
The FTSE 250, which has proved resilient in recent sessions, fell 10.8 to 4418.4. Volume recorded at 6pm was 648.8m while the value of customer business recorded on Friday was a measly £907.9m.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	3928.1	-20.4	FT 30	2782.9	-12.1
FTSE 250	4418.4	-10.8	FTSE Non Fins p/e	17.89	18.08
FTSE 350	1962.4	-9	FTSE 100 Fut Dec	3948.0	-55.0
FTSE All-Share	1938.07	-8.48	10 yr Gilt yield	7.78	7.62
FTSE All-Share yield	3.83	3.80	Long gilt/equity yld ratio	2.09	2.08

Best performing sectors

1. Telecommunications .... +2.9
2. Utilities .... +1.4
3. Breweries: Pubs & Rest .... +0.4
4. Banks: Merchant .... +0.3
5. Distributors .... +0.1

Worst performing sectors

1. Retailers: Food .... -1.4
2. Oil: Integrated .... -1.3
3. Mineral Extraction .... -1.2
4. Extractive Inds .... -1.2
5. Media .... -1.1

BT soars after MCI merger

By Peter John, Lisa Wood, Ramraj Gogna and Patrick Harverson

BT dominated business in the London stock market as analysts waxed lyrical following news of its £12bn deal with MCI.

Shares in what looks set to become the UK's biggest company in market capitalisation terms jumped 33 before easing to end the day 22 higher at 373p. The move was accompanied by turnover of 82m shares, the highest recorded since privatisation a decade ago.

In the words of one analyst, the MCI news "put the fantasy back in the sector" and other telecoms groups saw sharp early gains in the unqualified hope of more consolidation. Vodafone ended 5 up at 241½p and Orange 1¼ up at 185¾p.

Few analysts thought Cable & Wireless would attract a takeover after merger talks with BT failed six months ago and Cable dipped 6 to 483½p.

BZW was expected to issue a buy note today and Goldman Sachs moved its recommendation to "buy" from "hold". CS First Boston upgraded on the basis of an estimate of $2.5bn in synergies over the first five years and on expectation that the new company would realise double-digit earnings growth and some of the highest potential returns on investment in the industry.

Many analysts were putting a 400p a share price tag on the company – only what it was worth just over a year ago – arguing the utility label it had acquired was unwarranted. They said the market had valued the group as having 60 per cent of revenues governed by a regulatory price cap, but in a year's time only 15 per cent would be covered by a cap.

J Sainsbury fell 8 to 355½p on news that it is to launch a new promotion aimed at winning market share back from Tesco. More than 200 items will attract extra points on the company's Reward loyalty card. The strategy of offering a few extra Reward points had been widely rumoured in the market, but analysts said the move was more aggressive than had been thought.

UBS downgraded its forecast for Sainsbury for the current year by £10m to £705m and put the stock on its sell list.

Analysts are sceptical of the strategy because Sainsbury's customers are traditionally not very susceptible to price cutting and the concern is that Sainsbury will not get the extra business to pay for the initiative.

Tesco fell 4 to 325p, Safeway softened 5 to 357p and Kwik Save, which is also reported to be launching a cheap own label range, fell 17 to 302p.

Northern Electric led the remaining independent electricity companies higher as various Sunday newspapers speculated about a rival bid to top CE Energy's £768m offer.

Houston Industries and Florida Light and Power have been floated as possible alternatives and although, Northern has dismissed the prospect of a "white knight" saviour, the company's shares gained 4 to 635p.

Of the four remaining independent recs, London gained 2½ to 610p, Southern 4 to 649½p, East Midlands 5½ to 550p and Yorkshire 12½ to 747½p.

Chelsea Village jumped 16 to 113½p on speculation that Chelsea football club might be taken over following the recent death of Mr Matthew Harding, the businessman who owned 25 per cent of the company. There was little foundation to the stories linking Granada, Guinness Peat, investor George Soros and sports management group IMG to Chelsea, but marketmakers said there was plenty of demand to mop up supply from profit-takers capitalising on the stock's recent run.

Manchester United continued to suffer from the team's poor performance and profit-taking, the shares sliding another 13½p to 515p. Last month, they hit a high of 595p on bid talk that subsequently proved ill-founded.

Leading oil stocks moved lower as sterling continued to be strong against the dollar and the crude price drifted down further with three-month Brent traded in London hovering above $22 a barrel.

Shell Transport, which disappointed with its figures last week, fell 14½ to 965½p. BP, which reports today and is expected to reiterate the litany of squeezed refining margins and difficult trading conditions in chemicals, fell 7½ to 633½p.

Hambros, the merchant bank, was steady at 254p on the back of a recommendation from BZW.

Reuters fell 11 to 742½p after a downgrade from NatWest Securities which reduced its estimate for the current year from £806m to £785m because of the launch costs of the new 3000 information service.

BSkyB fell 22 to 547p with analysts reporting heavy selling in the US. Yorkshire Tyne-Tees strengthened 12½ to 1285p on continued speculative interest.

Kingfisher fell 11 to 635p after reports that it was considering an acquisition in France. Analysts said the group's long-term strategy was to expand on the Continent but not at present.

Great Universal Stores fell 11½ to 594p with UBS reiterating its "sell" view.

Whitbread climbed 7 to 740½p ahead of its results this week and the news that it is to acquire BrightReasons, the restaurant chain. Analysts responded well and said they believed the price was at the bottom end of most estimates.

AB Foods gained 8½ to 425½p after what analysts called very satisfactory results at the upper end of forecasts with healthy margin improvement in the UK. One said AB Foods, with a balance sheet with £800m of net liquid investments, was a safe haven.

Cairn Energy, the independent oil exploration and production company, fell 5 to 357½p, below the level of its recent 1-for-3 rights issue at 360p a share.

British Biotech fell 21½ to 207½p as its cautious disappointed some analysts, who said the data on marimastat, its cancer treatment, was merely confirmation of positive Phase II trial results published in May.

BTG, the intellectual property company, jumped 75 to 2462½p after announcing a worldwide licensing agreement with Peptide Therapeutics for an allergy vaccine for use in the veterinary field. Peptide moved forward 11½ to 205½p.

T&N dominated the engineering sector as good news concerning the long-running Georgine asbestos issue in the US was offset by news of poor trading in several of the company's divisions.

Investment bank Merrill Lynch downgraded its current year forecast to £101m from £117m. The figure for next year to £118m from £134m. T&N fell 3¼ to 125½p.

FT 30 INDEX

	Nov 4	Nov 1	Oct 31	Oct 30	Oct 29	Yr ago	*High	*Low
FT 30	2782.9	2795.0	2810.9	2799.1	2819.3	2572.8	2885.2	2668.6
Ord. div. yield	4.10	4.08	4.06	4.07	4.03	4.12	4.22	3.78
P/E ratio net	16.80	16.61	16.99	16.85	17.10	15.51	17.48	15.80
P/E ratio nil	16.65	16.75	16.83	16.78	16.94	15.32	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2802.8	2797.8	2790.6	2797.6	2787.6	2797.3	2796.5	2796.1	2783.3	2803.0	2779.8

	Nov 4	Nov 1	Oct 31	Oct 30	Oct 29	Yr ago
SEAQ bargains	39,380	35,536	35,647	36,098	38,313	29,533
Equity turnover (£m)†	-	807.6	1248.0	1335.6	1203.1	1867.3
Equity bargains†	-	23,400	26,174	27,247	28,510	34,978
Shares traded (ml)†	-	386.1	525.4	515.6	497.9	594.7

†Excluding intra-market business and overseas turnover.

	Nov 4	Nov 1	Oct 31	Oct 30	Oct 29	Yr ago	*High	*Low
FTSE AIM	1029.70	1025.40	1025.00	1022.20	1021.70	-	1140.40	985.70

 *For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	320	Total Highs	57	Total contracts	32,485
Total Falls	897	Total Lows	160	Calls	13,273
Same	1,382			Puts	19,212

Nov 4 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3975.0	3948.0	-23.0	3978.0	3945.0	9770	61869
Mar	3975.0	3983.0	-23.0	3975.0	3975.0	150	845
Jun	-	3978.0	-23.0	-	-	0	1374

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4443.0	-10.0	-	-	0	4129

FTSE 100 INDEX OPTION (LIFFE) (*3925) £10 per full index point

	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P	4000 C	4000 P	4050 C	4050 P	4100 C	4100 P
Nov	186	2½	140½	4½	96	10	57	21	28½	42½	9	78	2	127	1	177
Dec	217	18	173½	24	135	35	99	50½	68½	70½	42	98½	24½	134	12	177
Jan	234	29	195½	39	160½	50½	123	67½	91½	88½	67½	115	46	146	30	183½
Feb	258	44	219	54	181	68½	148½	83½	115	102½	91	129	67	158	58½	194
Jun†			275	107½			210½	141½			158½	188			111	242½

Calls 6,373 Puts 8,602

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P	4025 C	4025 P	4075 C	4075 P	4125 C	4125 P
Nov	162½	3	116	6½	74	14	38½	28½	15½	55½	4½	94½	1	140½	1	190
Dec	193½	21½	152	30	114½	42	81	58	53½	80½	32½	109	17½	143½	9	184
Jan	218	35	178	45	141	58	107½	74½	78	95	54	121	35½	152½	22½	189½
Mar			210½	76			146½	109½			95½	156			58	214½
Jun†			262	115			201	150			148½	193½			105	242½

Calls 1,953 Puts 4,721 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]					†Beechcroft	4		-	-	-	13.2
[illegible]					Charles Taylor	162½	+1	L4.2	0.3	3.2	51.6
[illegible]					†Corp Exec Search	4½		-	-	-	-
[illegible]					†Deep Sea Leisure	162½		-	-	-	-
[illegible]					†Elec Retail Sys	187½	+10	-	-	-	-
[illegible]											

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	1,700	478½	-2½
ASDA Group†	7,300	116¾	-1
Abbey National†	2,900	634	+1
Albert Fisher	3,400	41½	+¼
Allied Domecq†	792	474½	-½
Anglian Water	223	559	+10½
[illegible]			

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are rounded. Source: Extel, part of FT information.

FT GOLD MINES INDEX

[illegible]

Copyright, FTSE International Limited 1996. All rights reserved. Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]										
FTSE 250	[illegible]										
FTSE 350	[illegible]										

FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrn	[illegible]											
Pharmaceuticals	[illegible]											
Water	[illegible]											
Banks, Retail	[illegible]											

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence.

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

US INDICES

Dow Jones	Nov 1	Oct 21	Oct 30	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6021.85	6029.38	5993.23	6094.23 (18/10)	5032.94 (10/1)	6094.23 (18/10/96)	41.22 (8/7/32)
Home Bonds	103.38	103.10	103.00	108.09 (14/2)	100.99 (15/7)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2137.52	2133.58	2096.83	2296.29 (22/5)	1882.71 (18/1)	2296.29 (22/5/96)	13.23 (8/7/32)
Utilities	228.45	226.78	225.10	234.09 (12/2)	204.86 (30/7)	256.49 (21/6/93)	10.53 (8/7/32)

DJ Ind. Day's high 6062.87 (6063.67) Low 5975.34 (5955.59) (Theoretical‡)
Day's high 6057.70 (6040.56) Low 5996.19 (5990.99) (Actual‡)

Standard and Poors	Nov 1	Oct 21	Oct 30	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	703.77	705.27	700.90	710.82 (18/10)	598.48 (18/1)	710.82 (18/10/96)	4.40 (1/6/32)
Industrials¶	825.37	828.66	821.65	838.56 (18/10)	702.07 (15/1)	838.56 (18/10/96)	3.52 (30/6/32)
Financial	77.13	77.82	77.08	77.82 (31/10)	58.57 (10/1)	77.82 (31/10/96)	7.13 (4/5/74)
NYSE Comp.	373.88	374.50	372.72	378.32 (18/10)	321.41 (10/1)	378.32 (18/10/96)	4.64 (25/4/42)
Amex Mkt Val	572.58	568.72	565.29	614.89 (22/5)	525.60 (16/7)	614.89 (22/5/96)	29.13 (9/12/74)
NASDAQ Comp	1221.78	1221.51	1208.23	1268.19 (15/10)	988.57 (15/1)	1268.19 (15/10/96)	54.87 (3/10/74)

■ RATIOS

	Nov 1	Oct 25	Oct 18	Year ago
Dow Jones Ind. Div. Yield	2.15	2.15	2.12	2.41
	Oct 30	Oct 23	Oct 10	Year ago
S & P Ind. Div. yield	1.95	1.92	1.92	2.07
S & P Ind. P/E ratio	22.80	23.15	23.13	17.99

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
New Holland	13,923,700	21¼	-⅛
Ingram Mic	12,315,900	20⅞	+2⅝
Nike	8,213,300	54¼	-4⅛
AT & T	7,266,500	34⅝	-¼
Sprint	6,334,100	43⅝	+4½
Micron	4,577,100	25¼	+⅛
Motorola	4,545,900	45⅛	-⅞
Prime Serv	4,244,900	24⅛	+1
Ford	4,051,200	30½	-¼
C. de Tele	3,096,900	99	+½

■ TRADING ACTIVITY

● Volume (million)	Nov 1	Oct 31	Oct 30
New York SE	467,479	486,914	434,411
Amex	18,865	19,210	18,818
NASDAQ	540,732	589,578	549,528
NYSE			
Issues Traded	3,253	3,274	3,232
Rises	1,161	1,471	1,183
Falls	1,210	934	1,182
Unchanged	873	869	887
New Highs	132	171	111
New Lows	32	56	88

INDEX FUTURES

■ CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	2138.0	2147.0	+5.0	2151.0	2135.0	5,679	18,897
Dec	2143.0	2151.5	+5.0	2152.5	2139.5	699	20,751
■ DAX							
Dec	2696.5	2698.5	+7.5	2690.0	2673.0	10,747	-
Mar	2700.0	2707.0	+6.5	2708.0	2698.5	27	-

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	1676.00	1679.50	+5.50	1679.50	1672.00	3,800	27,368
■ SOFFEX							
Nov	3744.0	3758.0	+12.0	3757.0	3730.0	3,153	21,295
Dec	3737.0	3757.0	-13.0	3737.0	3737.0	8	728

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Dec	706.50	706.40	-0.10	708.00	706.40	78,558	178,918
Mar	714.00	713.00	+0.25	714.20	713.00	343	6,484

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	-	20640.0	+180.0	-	-	27,057	212,737
Mar	-	20550.0	+50.0	-	20500.0	1,986	14,757

Open interest figures for previous day.

Base values of all indices are 100 except: Australia All Ordinary and Mining – 500, Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ✦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Nov 4 - 2678.73 +8.64. ** Sat Nov 2: Taiwan Weighted Price 6582.94; Korea Comp Ex 785.73.

1 Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ✦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

NORTH AMERICA

TORONTO (Nov 4 / Can $)
4 pm close

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

■ TOKYO - MOST ACTIVE STOCKS: Friday, November 1, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	4.3m	331	-1
NKK Corp	4.0m	299	
Mitsubishi Heavy	4.0m	884	+9
Sumitomo Seika	3.6m	843	+32
Kawasaki Steel	3.5m	342	-9
Mitsubishi Elect	3.0m	668	+9
NEC Corp	2.7m	1260	+20
Yuken Kogyo	2.6m	725	-17
Toshiba Corp	2.5m	716	+4
Hitachi	2.4m	1030	+20

4 pm close November 4

NEW YORK STOCK EXCHANGE PRICES

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

NYSE PRICES

4 pm close November 4

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close November 4

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

♣ FT Free Annual Reports Service

You can obtain the current annual reports and if available quarterly reports of any companies on the US exchanges with a ♣ symbol. To order reports ring (International Access) 1-804-320-8097 or give the names of the companies whose reports you want and fax your request to (International Access) 1-804-320-8135. Reports will be sent the next working day, subject to availability. You can also order online at http://www.icbinc.com/cgi-bin/financialtimes.

AMEX PRICES

4 pm close November 4

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
NY TimA	0.80	53	1546	36⅝	35¾	36	+⅛
NVR		5	40	9½	9⅛	9 5/16	-1/16
Pegasus G	0.10	102	538	10¼	10⅛	10¼	+⅛
Parini	0.80	1	87	8 5/16	8⅜	8½	
PMC	1.12	12	92	13⅝	13½	13⅝	
RaganBrad		21	3	31	31	31	
SJW Corp x	2.22	7	5	40⅝	40⅜	40⅝	
Tab Prods	0.20	13	33	7 11/16	7⅝	7 11/16	+1/16
Tel&Data	0.40	17	1288	37⅜	36	37⅜	+1¼
Thermedics		31	199	20½	d19⅝	19¾	-¾
Thermotrex		24	294	30½	30	30⅜	-⅛
TotPNA	0.30	135	115	9½	9⅜	9½	+¼
TownCntry		6	256	½	7/16	7/16	
Trilux		6	8	[illegible]	⅞	[illegible]	
Tubos Mex		5	1303	11¾	11½	11½	+⅛
Moog A	1.08	14	14	19¾	19⅝	19¾	
MSR Expl		12	40	⅞	13/16	⅞	+1/16
NatPatDev		4	127	7⅞	d7⅝	7⅝	-¼
ViacomB		61	1206	36¼	29	35⅛	-⅛
WIRET	1.12	17	413	u13⅞	12⅝	13⅛	+½
Xytronix		2	00	1 1/16	1 1/16	1 1/16	

FINANCIAL TIMES Tuesday November 5 1996

Mergers lift activity in US markets

AMERICAS

US share prices were mixed in quiet midday trading in a session marked by several large merger announcements, but little macroeconomic or political news ahead of today's national elections, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was 18.26 stronger at 6,040.19 and the Standard & Poor's 500 2.23 better at 706.00, while the American Stock Exchange composite slipped 0.73 at 571.85 and the Nasdaq composite fell 0.42 at 1,221.36. NYSE volume was 212m shares.

Traders said tbat they expected activity to remain quiet until after the election.

The most active companies on both the NYSE and the Nasdaq were both the subject of takeover bids. On the NYSE, Eckerd, the drugstore chain, was the most actively traded share, jumping $4¼, or 15 per cent, to $33 on news that JC Penney, the fourth largest retailer in the US, had agreed to buy the company for about $35 a share in cash and stock. Shares in Penney lost $2⅞, or 5 per cent, at $50¼.

On the Nasdaq, MCI Communications was the most heavily traded share, altbough the company advanced only $¼ to $30½, well below the implied value of BT's bid for the US telecoms group. American depositary receipts of BT jumped $5½, or 10 per cent, to $61.

News of the huge telecoms merger led to active trading elsewhere in the sector. Sprint, which had added 12 per cent on Friday as rumours of tha takeover bid emerged, gave back $1⅞, or 4 per cent, at $41⅞. *GTE*, which tumbled on Friday, recovered $1⅛, or 3 per cent, at $41½.

CSX, the railroad company, *jumped $1½, or 5 per* cent, to $44⅛ on optimism that its purchase of Conrail would go through.

CSX, which made a friendly bid for the company, revealed that it was in talks to selt some of Conrail's assets to Norfolk Southern, whicb had made a hostile bid for Conrail.

Shares in Norfolk rose $1⅛ at $90⅝ and Conrail lost $2¼ at $93.

TORONTO was supported by a higher bullion price and firmer bonds which boosted shares of gold producers and banks.

Analysts noted that bank sbares had also benefited from some speculation that the Bank of Canada might cut its interest rates this wsek, this follows three reductions last month, as part of an effort to offset strength in the Canadian dollar.

The TSE-300 composite index was 10.59 higher by noon at 5,601.90 in volume of 43.5m shares.

Neivana fell C$1 to C$26 after Golden Books Family Entertainment of the US said that it was withdrawing its offer to buy the Toronto-based animation company.

Mexico City cautious

Caution prevailed in MEXICO CITY as investors awaited details of the 1997 budget proposals, today's primary cetes auction and the US elections. The IPC index was 12.50 weaker by midsession at 3,243.32.

Bufete, the construction group, collected 70 centavos at 45.40 pesos on what analysts said was an improved outlook for the sector, which was hard hit by the 1995 recession.

Dina, the bus and truck maker, lost 14 centavos at C$4.92 on profit-taking after Friday's strong gains.

SAO PAULO edged lower at midsession as the market continued to absorb measures, announced on Friday, to encourage foreign capital inflows. The Bovespa index eased 149 to 66,263.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling ‡	% change in US $ ‡
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	+0.13	-1.10	+12.07	+9.64	-1.84	+3.53
Belgium	-0.80	-0.53	+21.63	+11.52	-0.40	+5.05
Denmark	-1.34	+0.24	+24.16	+19.38	+7.68	+13.58
Finland	-1.85	-2.57	+2.24	+20.82	+9.48	+15.47
France	-0.63	+0.45	+20.53	+17.69	+6.53	+12.35
Germany	+0.49	+0.22	+22.67	+17.15	+4.84	+10.57
Ireland	+0.47	+0.23	+27.43	+21.25	+17.80	+24.04
Italy	-2.80	-5.30	+0.30	-1.82	-2.94	+2.36
Netherlands	-2.07	-0.45	+29.67	+19.69	+6.97	+12.77
Norway	+0.27	+0.95	+21.15	+16.69	+9.49	+15.47
Spain	-2.27	+0.96	+32.22	+18.65	+6.92	+12.77
Sweden	-1.27	+0.60	+26.97	+24.91	+19.20	+25.72
Switzerland	-0.53	-1.49	+19.90	+12.72	-3.26	+2.01
UK	-1.61	-1.71	+12.12	+7.24	+7.24	+13.10
EUROPE	-1.15	-0.94	+17.79	+12.60	+5.53	+11.30
Australia	+0.22	+1.22	+13.04	+4.95	+5.51	+11.29
Hong Kong	+0.73	+3.28	+24.03	+20.35	+14.11	+20.35
Japan	+0.03	-2.17	+10.77	-1.48	-15.19	-10.54
Malaysia	-0.73	+0.91	+25.49	+16.40	+12.75	+18.92
New Zealand	+0.03	+3.18	+5.19	+8.81	+8.91	+14.86
Singapore	-2.01	-3.54	+2.07	-7.29	-11.73	-6.90
Canada	+1.12	+3.31	+28.00	+20.64	+16.73	+23.12
USA	+0.45	+0.13	+19.60	+13.93	+8.02	+13.93
Mexico	-0.48	-4.55	+36.68	+16.10	+6.48	+12.31
South Africa	+0.40	-1.26	+20.25	+12.09	-17.34	-12.82
WORLD INDEX	-0.08	-0.54	+17.43	+10.02	+1.66	+7.22

† Based on November 1st 1996.

Bourses quiet in advance of US elections

EUROPE

Investors seemed reluctant to take positions in advance of today's US elections. In **FRANKFURT**, a slight decline in tha dollar and lower bond prices added to the generally aubdued tone, although equities picked up with bonds towards the end of the afternoon to close with the Dax index 8.54 higher at an Ibis-indicated 2,678.73, after a low of 2,664.39.

Turnover rose from Friday's DM5.3bn, dampened by a holiday in some parts of Germany, to DM7.1bn. The day's corporate news, too, got a *muted response* by recent standards.

SGL Carbon, a growth favourite this year, put in nine-month pre-tax profits 34 per cent ahead. This did not keep pace with the carbon and graphite products gronp's strong first-half growth. However, the shares hed already come back a good way, having risen from DM120 in January to DM191.50 a month ago. Last night they closed DM2 lower at DM170.

Elsewhere, the already out of favour Bankgesellschaft Berlin fell another DM1.25, or 4.8 per cent, to DM25 ahead of nine-month figures later this week. But Vieg rose D7 to DM568.90 on news that its European telecoms partner British Telecom was to merge with *MCI* of the US.

MILAN called a balt to trading in two Fiat group subsidiaries as they hit a 10 per cent limit-up ceiling. *Snia* was L109 higher at L1,220 and and Sorin Biomedica jumped L454 to L5,154 as they recovered from sbarp losses suffared in recent weeks and amid renewed talk of restructuring.

Fiat itself gavs up L57 at L3,937 as the Comit indsx edged 1.50 higher to 605.35 in weak turnover of around L350bn.

Mediaset, the television and advertising group, rose L142 to L7,270 on news of the $20bn merger between MCI and BT, which is a partner in the Italian-British Albacom joint venture.

Generali turned lower on news of a joint Sch6.5bn bid by its Austrian subsidiary and First Austrian Bank for Creditsnstalt-Bankverein which was being privatised. *Immediately* before the news, Generali was trading L45 higher at L29,350, bnt the shares subsequently turned down and closed L165 weaker at L29,107.

A firmer telecoms sector featured a L44 rise in Tim to L3,172 after the chief executive said that full-year results would be in line with six-month figures which showed a 48 per cent rise in profits.

PARIS featured a sharp intraday slide in the missiles-to-books conglomerate, Lagardère, which bottomed at FFr155.50 after it emerged at the weekend tbat Mr Jean-Lnc Lagardère, the group's head, was under formal investigation for alleged misuse of company assets.

However, the shares clawed back most of this deficit, closing just FFr1 lower at *FFr160.50* and the market did likewise, the CAC-40 index ending 1.64 ahead at 2,142.15 after e day's low of 2,123.69.

Turnover was FFr3.2bn. In insurers, UAP rose FFr1.80 to FFr108 on renewed speculation of a bid from Axa – UAP, once again, denied the rumours.

ZURICH edged ahead with the advance capped by caution ahead of tha US presidential and congressional *elections. The SMI index fin*ished 13.1 higher at 3,749.2. Sulzer gained SFr12 to SFr740 on news that it had sold its Sulzer Buelachguss foundry works to tha management.

Swiss Re rose SFr16 to SFr1,379 after the EU cleared its purchase of M & G Re from Prudential of the UK.

Traders reported some interest in cyclical issues foilowing the Swiss franc's recent decline. Holdsrbank, the cement company, was SFr14 highar at SFr895 on the completion of a large sell order.

A SFr100 rise in Ems-Chemie to L4,990 was attributed to en option expiry.

AMSTERDAM ended flat, the AEX index rising just 0.01 to 581.32. It was held back by a furthar fall of Fl 4.40 in Royal Dutch, the oil group ending just off its day's lows at Fl 272.30 after disappointing third-quarter results last week.

HELSINKI got a boost from its banking sector after Okobank filed a healthy recovery in profits for the first nine months of 1996. The shares rose FM1.90, or nearly 4 per cent higher, at FM53.90 and Merita, with figures due on Thursday, was helped to a rise of 40 penni at FM13.70.

The Hex index closed 6.72 higher at 2,204.57. UPM closed down FM1.10 at a five-month low of FM89.40 as more analysts downgraded the forestry sector, and the sporting goods group Amer lost FM1.50 at FM108 after it forecast a break-even result in 1997.

LISBON was enlivened by takeover rumours that drove Vidago up 21.8 per cent, prompting the bourse authorities to suspend trade in the stock.

The drinks company's ehares jumped Esc520 to Esc2,900 in otherwise quiet trade which left the BVL-30 index 5.32 higher at 2,007.67.

STOCKHOLM fielded progress reports from Astra, in pharmaceuticals, and Aga, in consumer durables, and closed a touch higher with tbe Affärsvärlden Gensral index up 3.0 at 2,153.1.

Astra's 8 per cent rise in pre-tax profits left the A shares unchanged at SKr302, but a rise in profits at Aga, which was heavily inflnenced by capital gains, took the B shares down SKr2.50 to SKr103.

ISTANBUL, up 29 per cent between September 13 and October 23, subsided a little more with tbs composite index losing 1,395.59, or 1.7 per cant, at 81,171.26, up from an afternoon low of 80,747. Turnover ross from TL16,930bn to TL21,640bn.

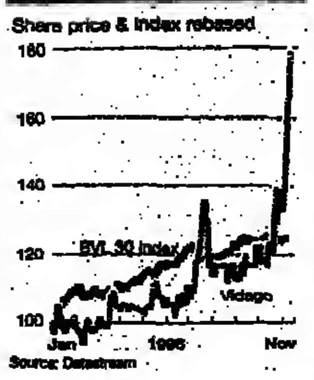
Written and edited by William Cochrane and Michael Morgan

FTSE Actuaries Share Indices

Nov 4								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1748.91	1748.47	1748.81	1748.44	1748.22	1747.74	1748.07	1747.59
FTSE Eurotrack 200	1807.88	1806.32	1809.04	1807.96	1808.95	1808.04	1807.92	1809.44
	Nov 1	Oct 31	Oct 30	Oct 29	Oct 28			
FTSE Eurotrack 100	1748.24	1747.44	1754.57	1758.14	1775.01			
FTSE Eurotrack 200	1810.81	1806.78	1811.05	1812.44	1832.23			

Base value 1000 (26/10/90). Highday: 100 - 1750.90; 200 - 1809.90 Lowday: 100 - 1748.83 200 - 1806.01. † Partial.

Vidago



Source: Datastream

Ebullient Dhaka rockets another 7% higher

ASIA PACIFIC

The Dhaka market's historic and headlong bull run showed no signs of abating this week, with feverish retail demand and a shortage of scrip pushing the index further into uncharted record territory, *writes Mark Nicholson.*

After leaps of 5.7 per cent and 6.1 per cent on Saturday and Sunday, the benchmark DSE index yesterday rose a further 235.58, or 7 per cent, to 3,587.68 in record turnover of Tk558.9m.

The index is now trading at almost three times the level of August, when the bull run began in earnest, and the broad market is trading at an unlikely 80 times current earnings.

The run, which began soon after the election of the Awami League government in the spring – bringing the promise of stability and economic reforms after two bitter years of political conflict, has prompted unprecedented sharemania in Dhaka.

Thousands of small investors now daily besiege the Dhaka Stock Exchange, which has been forced to bar entry to all but officials after physical cracks began appearing on the fourth and seventh floors because of the number of people visiting the building. "The entire street has been taken up entirely with kerb trading – the traffic has come to a standstill," said Mr Douglas Glen of Peregrine Securities, the Asian investment house, yesterday.

Although the DSE last month introduced circuit-breakers to limit daily stock rises to 10 per cent and the central bank yesterday acted to curb brokers' borrowings against shares, most analysts still believe that the market has further records to break.

"The demand is still strong and there's a still a shortage of scrip," said one foreign broker. Nevertheless, Peregrine was yesterday recommending that investors should take profits, with prices at what they called "ridiculous levels".

Turnover last week averaged $8.8m a day, compared with around $800,000-$1m in the first quarter. Market capitalisation last week rose 28 per cent to $5.3bn as retail investors ploughed their savings into stocks.

At present levels, the Peregrine market index is showing a 360 per cent rise on the year for the top 25 stocks, with the index's worst performing company, Prime Textiles, up 65 per cent on the year to date. The best performer, Confidence Cement, was yesterday trading at 2,300 times this year's earnings, up 1,416 per cent on the year.

KARACHI's speculators focused on selected blue chips at the opening of a new account. A rise in synthetic fibre prices and some good corporate results helped matters further and the KSE 100 index closed 41.31, or 2.8 per cent, higher at 1,500.47.

This followed an 0.7 per cent gain on Sunday when sentiment was more mixed, traders then saying that a bitter political struggle could follow the Lahore High Court's decision to reinstate the ousted chief minister of Punjab province and could keep investors jittery.

BOMBAY dropped 1.8 per cent in mostly dull trade which left the BSE-30 index down 55.85 at 3,092.72.

ITC fell Rs11.50 to Rs287.50 in response to the arrests last week of two former chairmen who were charged with offences under the foreign exchange regulations act.

SEOUL tumbled 2.4 per cent, with concern over an oversupply of shares this month the overriding factor. The composite index fell 18.31 to 747.42, 24 per cent down from its high for the year reached in May.

Analysts estimated this month's new stock supply at around Won1,150bn.

JAKARTA put on 1.3 per cent as foreign investors re-entered the market and bought selected heavyweights. The JKSE composite index rose 7.65 to 578.31.

Telkom rose Rp75 to Rp3,600 in 893,000 shares, partly due to its higher closing price in New York last Friday. However, brokers said that the market's main interest was in this week's public offering of about 1.1bn shares in Bank Negara Indonesia (BNI), at Rp850.

HONG KONG edged up to a second consecutive closing high, aided by a jump in New World Development ahead of results on Thursday.

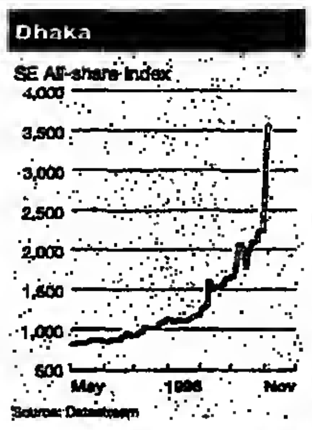
The Hang Seng index closed 30.13 higher at 12,559.40 in turnover of HK$6.3bn. New World Development rose HK$1 to HK$47.

SYDNEY's hopes of a rate cut tomorrow left the All Ordinaries index up 18.1 at 2,357.5 in turnover of A$645.5m. Westpac Banking rose 20 cents to A$7.38 after it announced a share buy-back plan.

TAIPEI saw sentiment improve after the government announced it was freeing two leading state funds to invest in stocks. The weighted index ended 59.67 higher at 6,622.61 in heavy turnover of T$58.47bn.

COLOMBO continued to move higher, propelled by domestic buying ahead of Wednesday's budget and by good corporate results in the second half of 1996. The CSE all-share index closed up 4.24 at 615.22.

Dhaka



Source: Datastream

Tokyo was closed for a public holiday

S Africa golds improve

Johannesburg was mixed in thin, mostly futures-led trading. An early advance in industrials was reversed, but golds moved higher in line with a steadily improving bullion price.

The overall index dropped 16.5 to 6,952.9, industrials fell 18.8 to 8,175.3, but golds ended up 9.9 points at 1,732.4.

Dimension Data rose 35 cents to R10.90, but Gencor slid 35 cents to R16.15. Banks were also weak with Nedcor 25 cents easier at R88.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	FRIDAY NOVEMBER 1 1996
Australia (78)	[illegible]
Austria (24)	[illegible]
Belgium (27)	[illegible]
Brazil (28)	[illegible]
Canada (118)	[illegible]
Denmark (30)	[illegible]
Finland (24)	[illegible]
France (93)	[illegible]
Germany (58)	[illegible]
Hong Kong (59)	[illegible]
Indonesia (27)	[illegible]
Ireland (16)	[illegible]
Italy (58)	[illegible]
Japan (480)	[illegible]
Malaysia (107)	[illegible]
Mexico (27)	[illegible]
Netherland (19)	[illegible]
New Zealand (15)	[illegible]
Norway (33)	[illegible]
Philippines (22)	[illegible]
Singapore (43)	[illegible]
South Africa (44)	[illegible]
Spain (37)	[illegible]
Sweden (48)	[illegible]
Switzerland (37)	[illegible]
Thailand (48)	[illegible]
United Kingdom (213)	[illegible]
USA (623)	[illegible]
Americas (794)	[illegible]
Europe (718)	[illegible]
Nordic (137)	[illegible]
Pacific Basin (876)	[illegible]
Euro-Pacific (1595)	[illegible]
North America (739)	[illegible]
Europe Ex. UK (506)	[illegible]
Pacific Ex. Japan (396)	[illegible]
World Ex. US (1810)	[illegible]
World Ex. UK (2220)	[illegible]
World Ex. Japan (1953)	[illegible]
The World Index (2433)	[illegible]